

103
**PANAMA CANAL COMMISSION AUTHORIZATION,
FISCAL YEAR 1995**

Y 4.M 53:103-84

Panama Canal Commission Authorizati...

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SUBCOMMITTEE ON
COAST GUARD AND NAVIGATION
OF THE

COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

**AUTHORIZING FUNDS FOR THE PANAMA CANAL COM-
MISSION FOR THE OPERATION AND MAINTENANCE
OF THE PANAMA CANAL, AND TO EXAMINE THE
PROGRESS IN RETURNING THE CANAL TO PANAMA**

MARCH 1, 1994

Serial No. 103-84

Printed for the use of the Committee on Merchant Marine and Fisheries



JUN 30 1994

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1994

78-130CC =

For sale by the U.S. Government Printing Office

Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-044132-3

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PANAMA CANAL COMMISSION AUTHORIZATION, FISCAL YEAR 1995

TUESDAY, MARCH 1, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COAST GUARD AND NAVIGATION,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:11 p.m., in room 1334, Longworth House Office Building, Hon. George J. Hochbrueckner (presiding as chairman of the subcommittee).

Present: Representatives Hochbrueckner, Hughes, Taylor, Coble, Fowler.

Staff Present: Elizabeth Megginson, Catherine Tucker, Douglas Cheramie, Joan Bondareff, Harry Burroughs, Cyndi Wilkinson, Ed Lee, Dave Whaley, Margherita Woods.

STATEMENT OF HON. GEORGE J. HOCHBRUECKNER, A U.S. REPRESENTATIVE FROM NEW YORK, PRESIDING IN THE AB- SENCE OF CHAIRMAN W.J. (BILLY) TAUZIN

Mr. HOCHBRUECKNER. Good afternoon. This hearing will come to order. The subcommittee meets today to receive testimony on the Panama Canal Commission Fiscal Year 1995 Authorization.

At the beginning of the 102nd Congress, the Merchant Marine and Fisheries Committee tasked this subcommittee with the authorization and oversight responsibility of the Panama Canal and Panama Canal Commission. I am pleased to again be a part of planning and support of the Panama Canal.

In less than six years, our government will turn over complete control of the Panama Canal to the Government of Panama. The Panama Canal Commission's priorities are to maintain and operate the Panama Canal, train Panamanian citizens in the operation of the Canal, and help the Government of Panama prepare for the Canal transfer at noon on December 31, 1999. It is our responsibility, as the subcommittee with jurisdiction over the Canal and Commission budgets, to make sure that these mandates are being met.

We are pleased to welcome today Mr. Robert McMillan, Chairman of the Panama Canal Commission Board of Directors and a Long Islander I would like to add. Mr. McMillan was recently elected as the new Chairman of the Commission Board. We are pleased to have his input today.

We are also pleased to have with us again, the Honorable Gilberto Guardia, Canal Administrator. Administrator Guardia is a Panamanian and has served as Administrator since 1990.

Gentlemen, I welcome all of you and thank you for your participation, and we look forward to your testimony. And certainly on behalf of the Chairman of this Subcommittee, Billy Tauzin of Louisiana, I am pleased to welcome you and hopefully he will join us shortly.

Mr. McMillan and Mr. Guardia are accompanied by Mr. Mike Rhode, Secretary of the Commission, and Mr. Norbert Kraegel, Chief Financial Officer. The Chair now recognizes the Honorable Howard Coble, Subcommittee Ranking Minority Member, for his remarks.

STATEMENT OF HON. HOWARD COBLE, A U.S. REPRESENTATIVE FROM NORTH CAROLINA, AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON COAST GUARD AND NAVIGATION

Mr. COBLE. I thank the Chairman. I will be very brief. Mr. Chairman, I also would like to extend a cordial welcome to Mr. McMillan and Mr. Guardia to our hearing regarding the reauthorization of the Panama Canal Commission.

Mr. McMillan, I extend congratulatory remarks to you upon your election to the chairmanship of the Commission. I have heard favorable reports regarding your performance of duties. I will be interested in hearing from you all as to the civilian status of the chairmanship of the Commission. I know there was a good body of support to that end, and I assume that is going smoothly, Mr. McMillan, and look forward to hearing from you about that.

I also anticipate with favor hearing about the current operations of the Canal as well as Mr. McMillan's and Mr. Guardia's views regarding the future of this very significant and important operation. I am particularly interested in learning how the Panama Canal Commission is progressing in its work looking to the transfer of the Canal from the United States to Panama. Again, Mr. Chairman, I thank you, and, Mr. Chairman, I would like to ask unanimous consent to have the statement of Congressman Jack Fields entered into the record.

Mr. HOCHBRUECKNER. With no objection, it shall be entered into the record. Thank you.

[Statement of Mr. Fields follows:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I am pleased to welcome the newly elected Chairman of the Board of Directors, Mr. Robert R. McMillan, to today's hearing. Administrator Guardia, it is good to see you again.

Today, we will be discussing the budget request for the Panama Canal Commission (PCC) for Fiscal Year 1995. This is the fourteenth time I have had the opportunity to review the Commission's budget. Once again it looks like the Commission has prepared a detailed and accurate budget request that will keep the operation of the Canal on a sound course. I am pleased that the operation loss for FY '93 will be fully recovered in FY '95 and that progress on the Gaillard Cut widening project is ahead of schedule.

I am also extremely interested in hearing about the progress of the interagency task force study, which I commissioned, on the structure and operation of the Panama Canal Commission.

This study is now four months overdue. We must send a positive message to the Panamanian Government that we believe there should be civilian, rather than military, leadership of the Canal enterprise and that the Canal must operate more like a commercial transportation business. With this in mind, I must say that I was dis-

turbed to hear that the Department of Defense had named a uniformed officer to be their representative on the Board. This was the first time such an appointment had been made by our Government and it sends precisely the wrong message. While I realize this was a temporary appointment, it was a distressing development.

Nevertheless, I am pleased that Mr. Bob McMillan has been elected to serve as Chairman of the Panama Canal Commission Board of Directors. Bob has been an outstanding member of the Board for many years and I am confident that he will serve with great distinction.

Mr. Chairman, I understand the interagency task force study and the legislative proposals required by P.L. 102-484 are currently being debated within the Administration, which is the cause of the delay. I hope that this report will be released soon so that we can carefully review it. I know this is not without controversy. However, I think changes are necessary if the PCC is to make the transition into a competitive transportation business, rather than a governmental agency subject to political whims.

Mr. Chairman, I am looking forward to hearing today's testimony and again welcome our witnesses.

Thank you, Mr. Chairman.

Mr. HOCHBRUECKNER. Mr. Taylor, do you have any opening remarks? Ms. Fowler? OK. Thank you. Then we will get right down to business. Mr. McMillan, if you would care to present to us, we would greatly appreciate it. Thank you.

STATEMENT OF ROBERT R. MCMILLAN, CHAIRMAN, BOARD OF DIRECTORS, PANAMA CANAL COMMISSION

Mr. MCMILLAN. Mr. Chairman, it is a particular pleasure for me today, as I did not know that you would be sitting in the Chairman's seat as Acting Chairman. Mr. Hochbrueckner is a distinguished Member of Congress from Long Island and someone I have known for many, many years. So it is a particular pleasure for me to appear here before this Subcommittee. And, Mr. Coble, I thank you for your kind words as the ranking member of the subcommittee, and I will try during the course of my remarks to address some of the questions you raised.

First of all, not in my prepared text, but I would say to you that we are about five months into my tenure as Chairman, and the Canal is still operating, at least as of this morning. So I think there has been no negative effect in terms of my being somebody from outside the military establishment and as Chairman.

Mr. Chairman, members of the Subcommittee, I am Bob McMillan, the Chairman of the Board of the Panama Canal Commission. I have been a member of the Board since November of 1989 and was elected Chairman by my fellow Board members on October 27 of last year.

I would like to give a brief summary of my testimony, and with the Chairman's consent, I would like to submit my full written testimony for the record.

Mr. HOCHBRUECKNER. Mr. McMillan, it will be entered into the record. If there are no objections, we will be happy to put it in verbatim. Thank you.

Mr. MCMILLAN. Thank you, Mr. Chairman. At the outset, I would like to thank the leadership of this Subcommittee for its continued support for, and understanding of, the Commission. The agency is entering into what will be the most challenging part of the 20 year treaty period. I know that you share the commitment to seeing the Canal succeed in the near-term and for many years after the turn of the century. We will continue to rely on your spe-

cial understanding of what I think is the most unique Federal agency now in business.

Regarding long-term transition issues, I am going to leave much of the subject for the Administrator to cover, especially regarding the efforts of the Republic of Panama. I would like to, however, highlight a couple of examples of progress on this front.

The Commission reported to this Subcommittee last year on the commencement of a study mandated by our 1993 Authorization Act, to examine possible changes to the Canal organization and to its governance to help facilitate the most successful transfer of the Canal possible. The study was completed last year by the firm of Arthur Andersen & Company, and after consideration by the Board of Directors, it voted unanimously to adopt many of its recommendations which were then forwarded to the Administration for interagency review. The end product of this discussion within the Administration will be a presidential transmittal to the Congress of recommended changes to the Commission.

It would be premature to discuss the study and the President's recommendations before this interagency process is completed and a formal transmittal to the Congress is made by the President of the United States. However, I believe I can say that among the agencies with a significant stake in the Canal and its future, there has been a spirited discussion of the best actions to take to meet the responsibilities and the hopes of the Panama Canal treaties.

On another transition front, the U.S.-Panama Consultative Committee has met four times since the last Panama Canal Commission appearance before this Subcommittee. The Consultative Committee serves as a binational body to discuss and recommend actions by both countries to implement Panama Canal treaties and to prepare the Republic of Panama for transfer of the Canal. In its meetings, the Committee discussed the full range of transition activities, from the Arthur Andersen study mentioned above to the significant transition-related activities of the Republic of Panama, which Mr. Guardia will outline for you.

As former chairmen and the Administrator have repeatedly stated in past hearings, the Canal continues to meet the competition in a free, open, and intensely competitive environment. Last year has been no exception. The Canal, as we have all come to expect, has performed its services to world shipping in an unparalleled and uninterrupted fashion.

Mr. Chairman, I would like, with your permission, to publicly acknowledge the outstanding leadership of Administrator Guardia. In my judgment and the judgment of many people associated with the Canal and in the shipping industry, he is one of the finest Administrators in the history of the Panama Canal. And, as you know, Mr. Guardia is the first Panamanian Administrator.

While meeting the day-to-day demands of the waterway, the Commission has kept its sights on the longer-range goals of the Panama Canal Treaty. Panamanians now comprise 88 percent of the Commission workforce as opposed to 69 percent on the effective date of the treaty. As their experience and length of service accrue, Panamanian citizens are filling more upper management positions.

For example, last year Mr. Numan Vasquez, a Panamanian citizen, was appointed as the first Panamanian Director of the Engi-

neering and Construction Bureau, one of the three major operating bureaus in the organization. Panamanians now head two of these three important bureaus. They are plainly playing a significant role in the management, operation, and maintenance of the Canal including decision making at the highest management levels.

It has been an active year for the Board of Directors. With a view toward equipping the Board of Directors to meet the increasing challenges and responsibilities of preparing for transfer of the Canal to Panama, the Board, at its January meeting, approved the restructuring of its standing committees. These new committees consist of an Audit Committee, a Transition Committee, and a Re-chartered Personnel and Security Committee.

The membership ratio of all three committees remains the same, in which two U.S. and two Panamanian members serve on each. This structure continues to work well for the Board, and represents a good example of the strong binational cooperation which is evident in the agency from the top to the bottom. These committees will increase the Board's involvement in the transition planning for transfer of the waterway to full Panamanian control as well as increase the Board's engagement in oversight of Commission policies and programs.

Fiscal Year 1993 was a difficult budget year for the Commission. As you know, difficult economic conditions resulted in reduced traffic and tolls for the agency. During the first four months of the current fiscal year, however, traffic levels have shown moderate but sustained growth and are expected to continue to do so for the remainder of the year as the U.S. economic recovery continues to gain strength.

With regards to Fiscal Year 1995, tolls revenue are projected to continue to grow although at a more moderate rate. Upward pressure on costs is expected to be modest. The Commission continues to be optimistic that, despite cost pressures and the decline in traffic volumes of the past year reflecting the state of the world economy, the Canal will not need to propose—and I want to emphasize not need to propose—any increase in toll rates in the near future. As you know, the Commission, as a competitive entity, must be sensitive to the concerns of the world shipping community on costs.

Mr. Chairman, Mr. Guardia will be addressing the Commission's Fiscal Year 1995 budget in some detail so I will not duplicate his efforts here.

At this time, I would like to express the Board members' appreciation for the loyalty and commitment of all Panama Canal Commission employees. Their dedication and professionalism has resulted in another year of safe and efficient service to the international shipping community.

Mr. Chairman, this concludes my remarks. I would like to suggest that Mr. Guardia present his statement, and then we will both be available to answer any questions the members of the committee might have. Thank you very much.

[Statement of Mr. McMillan may be found at end of hearing.]

Mr. HOCHBRUECKNER. Thank you, Mr. McMillan. And at this point, Administrator Guardia, we will now hear from you. Thank you.

**STATEMENT OF THE HONORABLE GILBERTO GUARDIA F.,
ADMINISTRATOR, PANAMA CANAL COMMISSION**

Mr. GUARDIA. Thank you, Mr. Chairman. With your permission, I will summarize my testimony and submit the full statement for the record. I am please to appear before you today to present the Fiscal Year 1995 budget programs of the Panama Canal Commission, but first I would like to start by expressing my appreciation to Chairman McMillan for his gracious and generous words of support for the Panama Canal Commission's workforce, its management team, and its Administrator. Thank you very much, Mr. McMillan.

I would also like to take this opportunity to again express my sincere appreciation to the subcommittee and each of its members for the support and assistance that they have provided the Panama Canal Commission during the recent years. Mr. Chairman, I look forward to a continuation of this harmonious and productive relationship in the future under your leadership.

As background for the review of our Fiscal Year 1995 budget programs, I will very briefly comment first on the operating results for Fiscal Year 1993 and our current outlook for Fiscal Year 1994.

The sluggish Canal trade performance during Fiscal Year 1992 continued into 1993 with most elements of Canal traffic declining for the second consecutive year. Tolls revenue at \$401 million increased 8.7 percent due to the toll rate increase implemented on October 1 of 1992. Adjusted for the rate increase, tolls revenue was actually down 1.1 percent.

Among the cyclical effects taking a toll on Canal trade was the prolonged economic recession in Japan and Europe and the slow pace of the U.S. economic recovery. The economic performance of these regions largely influences Canal traffic since each of them typically account for large volumes of trade through the waterway.

Despite the decline in traffic, the 9.9 percent toll rate increase combined with a tight control on operating costs allowed the Commission to recover \$3 million of the \$3.6 million loss incurred in Fiscal Year 1992 and to complete the financing of its \$38 million capital program. The balance of the \$600,000 loss from 1992 will be carried forward and is budgeted to be recovered in Fiscal Year 1994.

Canal traffic and tolls revenue in Fiscal Year 1994 are projected to reverse the two-year decline and begin to recover as the U.S. economy strengthens and marginal improvements occur in the Japanese and European economies in the coming months. Other Far East economies important to Canal traffic, such as Taiwan and South Korea, although affected by slightly weaker export markets, are expected to remain fairly strong.

Tolls revenue is estimated at \$412 million, an increase of approximately 2.8 percent. Total operating revenues are forecast at \$536 million after deducting \$11.5 million for the financing of our capital expenditure program and \$5 million for working capital.

In summary, the traffic decline experienced in Fiscal Years 1992 and 1993 is expected to turn around, leading to moderate growth in Canal traffic. The increase in operating costs has been held to two percent over 1993, and at the bottom line, the Commission will break even for the year, recover the \$600,000 loss carryover from

Fiscal Year 1992, and finance the \$39 million capital expenditures planned for the year.

Turning to Fiscal Year 1995, the Commission's budget provides for a break-even operation. Total operating revenues, after providing \$9.5 million for the capital program and 5 million for working capital, are estimated at \$549 million. Total operating revenues for 1995 include an estimated \$419 million in tolls revenues at existing toll rates.

Canal traffic is expected to continue growing, however, at a slower pace, driven by a modest but broad-based trade recovery. Grain, representing the single largest tonnage in Canal trade, is projected to grow marginally, and the container trade should strengthen as traffic to and from the west coast of South America continues to expand.

Total operating costs in 1995 are estimated at \$549 million, an increase of 2.6 percent. Payroll and related costs are budgeted at \$302 million and assume a 1.6 percent pay increase effective January 1, 1995. Treaty mandated payments to Panama are estimated at \$93 million, an increase of 3.5 percent as a result of the higher traffic levels and an increase in the tonnage payment rate from 36 cents to 37 cents for each Panama Canal net ton transitting the waterway.

In summary, the Commission has budgeted a break-even operation for 1995, recovering all costs of operations and the funds required to fund its capital improvement program and working capital requirements.

I turn now to the capital program for Fiscal Year 1995. As in past years, over 70 percent of the program is devoted to essential transit facilities and equipment. The majority of these funds are expended to improve transit safety and efficiency and to modernize the Canal.

The major continuing project in our capital program is the widening and straightening of the Gaillard Cut. We have budgeted \$10 million for this program in 1995 bringing the total from the year 1991 to 1995 to \$31 million. Dry excavation work in the Cut, which is being performed primarily by Panamanian contractors, continued at a rapid pace during 1993. More than half of the work on the contracts awarded so far has been completed.

The wet excavation work which will begin later this year will be accomplished by existing Commission in-house forces. The land-based and water-based drilling and blasting will begin in the middle of Fiscal Year 1994. The removal of the below water land mass by the Commission dredges will begin in late 1994.

1993 was a watershed year in terms of the planning and preparation for the transfer of the Canal to the Panamanian control on December 31 of 1999. The past year has seen considerable progress by both Panama and the United States in this area. Much hard work, of course, remains to be done to plan and carry out the transition. The positive steps that have been taken, however, are most encouraging, and I am certain that they foretell a successful transition.

In that regard, I would like to touch briefly on some highlights of the progress made during the past year in planning and preparing for the transition of the Canal to Panamanian control in 1999.

At last year's hearing, I mentioned that the Ad Hoc Committee appointed by President Endara was studying how best to structure a new entity to manage and operate the Canal after the year 2000. That committee, now renamed the Canal Affairs Presidential Committee, was tasked with identifying the key transition issues and making recommendations to the executive branch of the Government of Panama for resolving them.

During the past year, the committee completed its studies in this area and presented its recommendations to the President of Panama. Among those recommendations was a proposed amendment to the Panamanian constitution to establish an autonomous governing entity to administer the Canal in the year 2000 and beyond. With minor modifications, the proposed amendment was submitted by President Endara to the Panamanian Assembly, their equivalent of the U.S. Congress, for its consideration. Despite its many accomplishments, the Presidential Committee's work is not complete. It is now embarked upon a new phase in which it has been tasked with developing the specific laws that will establish and define the powers of the new Canal entity under Panamanian law using the Panama Canal Commission as a model.

The Panamanian Assembly took up the issue of the proposed constitutional amendment. Following considerable debate and some compromise, the Assembly approved the amendment in December, 1993. In order for the amendment to become effective, it must be passed again by the next Assembly scheduled to be elected in May of this year and to take office on September 1, 1994. I would like to briefly touch on some of the more significant aspects of the proposed constitutional reform.

The constitutional amendment provides for an autonomous government entity to be exclusively responsible for the administration, operation, conservation, maintenance, and modernization of the Canal including its watershed and the land and water areas adjacent to the Canal.

The entity is to be governed by an 11 member Board of Directors with its Chairman appointed by the President of Panama and one member appointed by the legislature. The remaining nine members who are appointed by the President will serve staggered nine-year terms. It also provides for financial autonomy based upon the three-year financial budget process separate and apart from the usual bureaucratic process and for a special employment system based upon merit principles with working conditions and labor rights similar to those in effect prior to the transfer of the Canal to Panama. This provision is especially key in allaying the fears and concerns of our Panamanian employees about their future with the Canal.

As an update on the Interoceanic Regional Authority which is commonly referred to by its acronym ARI, it was established in May, 1993 as a semiautonomous government entity. Since I last testified on this issue, the members of the governing Board of ARI were appointed by President Endara and confirmed by the Panamanian legislature. In addition, ARI's Board of Directors has selected and appointed an administrator to head the agency and begin initial planning and development efforts.

As you may recall, ARI is responsible for overseeing the development of those former Canal Zone land areas and facilities which reverted to Panama in 1979, as well as those military bases and other areas which will be transferred to Panama by December 31, 1999, as part of the U.S. military drawdown and asset reversion process.

ARI will not be responsible for addressing areas currently used by the Panama Canal Commission for Canal operations and other activities. Nonetheless, in our view, it is vital that Panama's use of these areas be compatible with the long-term operational requirements of the Canal.

To further this objective, the Commission's senior management has provided a number of briefings to ARI officials during the past year to acquaint them with the varied and complex aspects of the Canal enterprise. ARI is now in the process of hiring a consulting firm to assist them in preparing a master plan to allow them to make optimum use of the aforementioned Canal area.

In closing, I would like to briefly discuss certain aspects of the efforts currently underway to prepare for the year 2000. We are investing approximately \$125 million annually in maintaining, modernizing, and improving Canal facilities. In addition, we are striving to maintain a high degree of professionalism and morale among our employees.

Training programs to ensure a quality workforce and provide for increased participation by Panamanians throughout the organization remain one of our top priorities. Panamanian citizens now comprise approximately 88 percent of the Commission's workforce with increasing involvement at all management levels. In the key transit operation area, Panamanian pilots total 116 or 51 percent of the total pilot force.

I continue to be actively involved along with senior members of my staff in presenting specially designed briefings on Canal operations. The primary thrust of these presentations has been to identify the policies, systems, and functions that are currently necessary for the successful management and administration of the Panama Canal. During the past year, we have addressed the variety of Panamanian Government task forces, commercial forums such as maritime conferences and trade conventions and local organizations such as the Panama Association of Business Executives and the Panama Chamber of Commerce.

Mr. Chairman, that concludes my prepared remarks. I would be pleased jointly with Mr. McMillan to answer any questions that you may have with regards to our statement.

Thank you very much.

[Statement of Mr. Guardia may be found at end of hearing.]

Mr. HOCHBRUECKNER. Thank you, Mr. Guardia and Mr. McMillan. I do have several questions on behalf of Chairman Tauzin. First, is the Commission anticipating a toll increase in the next few years?

Mr. McMILLAN. Mr. Chairman, as I indicated in my prepared remarks, we do not foresee in the immediate future a toll increase. None is planned for the '95 fiscal year. I think we would have to be into that fiscal year to say with absolute certainty that one would not be required in the next year, fiscal year 1996. I can tell

you that all of our efforts—I think the Administrator's efforts and the Board's efforts, and with utilizing some of the principles of the Administration with regard to Vice President Gore's programs on reinventing government—we are continuing to make the Canal as efficient as possible so as to avoid any tolls increase as long as possible.

Mr. HOCHBRUECKNER. How will the NAFTA agreement affect Canal traffic in the future? Do you have any anticipation of the impact of NAFTA?

Mr. GUARDIA. NAFTA, in the initial stages, will have very little effect on Canal traffic. It may in time divert some traffic that now transits the Canal. Perhaps items that are now produced in Asia markets for importation to the United States will be developed in Mexico, by Mexico itself or by the investment of Asian and Far East interests. However, as other Latin American countries come into the NAFTA agreement, we would envision that this could result in a slight increase in traffic going through the Canal from increments in exports from South America, especially the west coast of South America.

Mr. HOCHBRUECKNER. Thank you. Now, you indicated that a slight increase in Canal traffic is predicted into 1995. What happens if this increase is not realized? Will the maintenance projects be deferred, or how would you deal with that?

Mr. GUARDIA. We don't anticipate that to happen, but in the event that traffic declines, we would be modify some of our programs. We would begin as we always do in this type of situation, by reducing maintenance that is nonessential. The very essential maintenance won't be deferred. But we don't foresee reduction at this time.

The performance through the first quarter of the year indicates fairly clearly that we are on target with the budget for 1994. We are a little bit over our tolls forecast, as a matter of fact, and the indications are that it is not a one time event, but that there are continued signs of recovery in the U.S. economy which is the main driver of tolls.

Mr. HOCHBRUECKNER. When do you anticipate that the results of the Arthur Andersen study will be made available to Congress?

Mr. MCMILLAN. The Office of Management and Budget is currently discussing a resolution of the recommendations with the major Federal agencies having a stake in the Canal and, Mr. Chairman, it would be premature to comment on our report in fairness to the President until the OMB process is completed and the President has an opportunity to submit his proposal. I think we are close, but to say we are two weeks away or two months away, it is probably in that time range, but, again, I wouldn't want to guarantee that timeframe, but that would at least be my judgment.

Mr. HOCHBRUECKNER. So the ball is not really in your court at this point?

Mr. MCMILLAN. No. We finished our portion. We have unanimously recommended positions to OMB, and those positions are now being worked out among the various departments that have a deep interest in the Canal affairs.

Mr. HOCHBRUECKNER. Do you know in light of that kind of schedule which you don't really control, do you anticipate perhaps that

some of the recommendations might be incorporated into the authorization bill this year?

Mr. MCMILLAN. I don't think so because it is, again, a question of timing.

Mr. HOCHBRUECKNER. OK. Administrator Guardia, could you comment in general on the upcoming elections in Panama and how the current political situation will affect the Canal and the Commission as we move toward the takeover in the year 2000?

Mr. GUARDIA. The upcoming elections are an event that has been scheduled for some time. The elections do not have an impact on Canal operations or Canal performance. As you know, the final candidates were nominated on February 8. The political campaign has seven candidates running for president. So it is very difficult to determine a front runner at this time. Elections are normally difficult. This one is especially difficult because of the number of candidates.

The campaign has been developing in a very moderate political climate. I don't know if you are aware, but there was a proposal agreed to by all the political parties to maintain a certain level of ethical standards in the campaign in order to avoid overheating.

I think that the next couple of months in the campaign are going to show a little more of how it will develop. It is too early to arrive at any clear indication based on what the polls are showing now, because the campaign has just started and people are just getting to know the candidates. Do you have any other specific questions with regard to the elections?

Mr. HOCHBRUECKNER. Well, if your efforts to tone down the election work, please let us know. We would like to learn from that. At this point, I am very pleased to recognize Mr. Coble for his questions.

Mr. COBLE. Thank you, Mr. Chairman. Mr. Guardia, let me be a little more precise on the Chairman's last question. I will give you a multiple choice. Is the political climate in Panama harmonious, turbulent, chaotic, indifferent, calm? Which of the five do you think would best describe it?

Mr. GUARDIA. I would say at this stage of the campaign it is harmonious.

Mr. COBLE. OK. That is good to know. I have read that from your comment. Your testimony, Mr. Guardia, refers to structural changes in the world economy. Explain for us, if you will, what structural changes in the world economy would be contributing to the decline in Canal traffic. I mean, many up here believe that world trade is increasing, number 1, and let me follow that with a second question perhaps to make it maybe easier to answer it.

Canal traffic has steadily declined since the 1992 rate increase. Is it your belief that shippers may be avoiding the Canal and utilizing alternative shipping routes because of the toll increase? I will just merge those two questions into one.

Mr. GUARDIA. Let me say that Canal traffic was decreasing before the toll rate increase. We need to remember what was taking place: one, the effects of the end of the Gulf War which had produced an upsurge in Canal traffic, followed by two years of declining traffic which partially was a normalization to pre-war levels.

And two, Canal traffic is sensitive to the economies of the United States and the Asian countries. The U.S. recovery actually began to have clear indications of recovery at approximately the beginning of this fiscal year. Even though we had estimated that by the end of 1993 we would be seeing effects of the economic recovery in increased Canal traffic, it did not happen. We are now seeing the effects of a recovery in the U.S. economy. The Japanese and European economies, however, have not yet shown those signs. And these three markets are what I would call the main drivers of Canal traffic.

Now, regarding the structural effect on Canal traffic, an example is coal shipments that used to go through the Canal have been going around the Cape of Good Hope on larger ships, taking advantage of the economies of scale and bypassing the Panama Canal. That is a type of structural change that I am referring to.

The effect of Japanese investment in automobile production in the United States is another type of structural change that caused a decrease in automobile shipments through the Canal. And yet another type is the development of the land bridge from the West Coast of the United States to the central United States and even the East Coast which is competing very favorably for container traffic.

The land bridge is competing with the Panama Canal to the point where tolls do not have any effect on that alternative. Even if the Canal eliminates tolls, that sector of container traffic would still utilize the U.S. land bridge because there are other factors that come into play, such as distances, time, and costs of inventory, which far outweigh the cost of tolls.

So there are a number of factors that when combined result in a financial situation with which the Canal cannot compete, and that is the reason why any rate increase by us in the movement of containers has no impact on the land bridge alternative. This is another type of structural change.

Mr. COBLE. Mr. McMillan or Mr. Guardia, has the Interoceanic Regional Authority which oversees the development of the Canal properties already transferred to Panama, made any decisions about the use of the property it controls [A] and, [B] has any development commenced on any of these properties?

Mr. GUARDIA. The agency, ARI, is just beginning to function. As I mentioned, last year was when it was incorporated. A Board was appointed. Then the Board went through the process of selecting an Administrator which took some time. The Administrator is now appointed and ARI is beginning to develop a master plan in order to establish the guidelines for the proper use of the land and its maximized value to Panama. To do that, ARI has advertised for public competition from the consulting firms to furnish proposals. Proposals have been received, and ARI is now in the process of selecting a winner for the contract to determine the master plan. It is envisioned, however, that ARI may begin to implement portions of it during the process of its development.

At present, there is one project which is important, I think, that is being developed in the reverted areas, a container port in the Colon Free Zone. The function of the container port would be to provide transshipment service for containers that could be brought

by a ship, unloaded, and transferred to other feeder lines into Caribbean, ports on the east coast of South America, and the gulf ports of Central America.

This service today is provided almost wholly by gulf ports in the United States. So this port facility will be competing with them. This is one important project that is already under construction. So I think that we will be seeing more activity in the next year in reverted areas. It seems like ARI is addressing this in a orderly manner with the purpose of trying to maximize the use of those properties.

Mr. COBLE. Mr. Chairman, one final question. I will ask you this question for Mr. Fields if I may. Now, I assume, gentlemen, that all remuneration of pay for Panama Canal pilots comes from money generated by the Canal and not from the U.S. Treasury. Is that a valid assumption? All right. Having said that, is the Commission prepared—did you nod in the affirmative? Correct? That is correct?

Mr. McMILLAN. Yes.

Mr. COBLE. Is the Commission prepared to negotiate with the pilots for an agreement which will provide them compensation based upon industry standards?

Mr. McMILLAN. Well, let Mr. Guardia respond to that in detail, but let me say, Mr. Coble, one of the challenges we have from a legal viewpoint is that the Congress sets the wages for employees of the Federal Government or designates wage boards such as the Panama Area Personnel Board, for example, that gets involved with wage setting in Panama. But basically I would just say, and let Mr. Guardia respond further, that wages, to my knowledge, are not negotiated anywhere else in the Federal Government. There may be input and discussion with what type of wage increase is given, but I think that wage setting is an underlying challenge we have in coming to grips with your question.

Mr. COBLE. Well, you all may want to contact Congressman Fields about this. As I say, this was his question, and that might not be a bad idea, Mr. Chairman, to have you all, if you will, contact his office about that. Thank you, gentlemen. Thank you, Mr. Chairman.

Mr. HOCHBRUECKNER. You are welcome, Mr. Coble, and at this point the Chair recognizes Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman, and let me begin by thanking those representatives of the Canal Commission for the hospitality they showed me on my recent visit down there. Mr. Coble, in response to your question, if I may, as an outsider, I was just, in the one year difference between this year's visit and last year's visit, amazed—and our embassy didn't even notice how much more tranquil the country was.

A year ago, almost any business of means had a guy with a shotgun on the front steps. This year, the first guy I saw with a shotgun happened to be at our charge d'affaires's home because they were having several prominent Panamanians there that night. So I was amazed at the overall tranquility of the nation, and I hope it stays that way.

Mr. COBLE. Thank you, Mr. Taylor.

Mr. TAYLOR. A couple of questions on dealing, if you don't mind, with ARI and the transfer of properties and facilities. You know,

flying into Howard, it is fairly apparent that about the only real forested areas left in that portion of the country are near the Canal or the Canal Zone properties, and obviously those forests are very important to avoid erosion and the runoff filling up the lakes and, in turn, the Canal. But what mechanism is there—the decisions that ARI makes have to somehow work hand-in-hand with what the Canal does because if the ARI takes a very, you know, unbalanced approach toward development, the first thing they do is go in and cut the mahogany trees, make some quick cash, and it turns out to become your problem as far as erosion.

The second question is dealing with security. I mean, right now you have got, if I am not mistaken, at least four United States military installations bordering the Canal. There is no PDF. Again, getting back to what I said, the Nation is very tranquil, but on the flipside, there are very, very few policemen. What happens when the Americans and the American military goes as far as security for the Canal?

How is that going to be done so that we don't end up with the terroristic situation that was very prevalent in the Persian Gulf just a few years ago or even piracy where people can't be so sure that the crew members get, in effect, mugged as they are transitting the Canal or waiting to transit the Canal?

And my third question is, again, going back to your agreements with ARI, obviously this nation regrettably watched the dismantling—looting would be a better word—of what were our facilities in the Philippines when they were turned over to the Filipinos, and probably very little of the benefits of those installations went to the Nation of the Philippines, but I think a lot of guys ended up with refrigerators in their country homes, new plumbing, you know, and what not.

What is being done along those lines? I do want to commend the Panamanian Canal Commission in the great work they have done, and I find a very professional core of people. I do worry about any brand new organization and especially a brand new organization just given a magnitude of assets with what I gather almost nothing to protect those assets. What is being done in order to protect those things? And I will open it up to Mr. Guardia, Mr. McMillan, anyone.

Mr. GUARDIA. Thank you, Mr. Taylor. Let me begin with your first question regarding the watershed and ARI. The watershed in the Panama Canal is in what used to be the Canal Zone area. So that is under ARI's responsibility. This is one of the reasons why I said that they have approached the challenge of using the lands in an orderly manner because the watershed issue is a very important one. They have a task at hand to develop lands but not develop lands without any program to protect the watershed.

And it is evident that the watershed needs to be protected, so there has to be a special designation for those areas in that master plan, and this is what that master plan is endeavoring to define: what uses in what areas, and what regulations should be established in each one of them to protect the environment and maximize the benefits.

Another aspect of this is the extreme necessity for maintaining a very fluid relationship between the Canal Commission and ARI.

And in this, I think, we have been very successful both from that agency's view and from our perspective. I am very optimistic with what they should be able to accomplish because of the type of people who were appointed to the Board of Directors. It is clear that they were not political-type appointments. They are a very dynamic, entrepreneurial group that come from different sectors of the Panamanian business community.

Mr. TAYLOR. May I interrupt?

Mr. GUARDIA. Yes.

Mr. TAYLOR. And because, again, I hope you have not taken—I have had the opportunity to meet with four members of that Board, and I was very much impressed with them. And I am not in any way questioning their credibility. What I am questioning is you three gentlemen obviously can't be the DC police force. You are all very capable at what you are doing, but my curiosity is since the Canal is so important to the future of Panama—the Canal basically for many years was Panama—is there any safeguards or are you recommending any safeguards to the Panamanian constitution where the Canal Commission will continue to exercise some sort of oversight over ARI because unless those gentlemen who are very good gentlemen are given some sort of budget, how do they hire people to keep the forests from being looted? How do they hire people to keep the facilities from being looted? What is the mechanism—what jurisdiction do they have to prevent things from being carted off in the middle of the day or during the middle of the night? I wish you would address that please, sir.

Mr. GUARDIA. Yes. This is a very vast subject, but let me just say that what we have seen happening with ARI's preparing to receive reverted property doesn't give us any indication of a lack of concern or responsibility on their part. We have observed the way the entity was incorporated, the way that they proceeded in appointing its Board, in selecting an Administrator, and in organizing themselves to manage the lands that are being reverted to Panama. All of these actions have been conducted in a business like manner.

The intention of the Panamanian government is to initially fund that agency with start-up monies. The agency, ARI, not only administers the property, but they will also be receiving all of the revenues from the use of those lands. All of this is established in the legislation that created ARI. So there is going to be a transitional need for funds to get organized.

But let me continue because I think that your questions tend to complement each other. Let us go to the question of Canal security. I think the part played by the U.S. Armed Forces in Panama was more or less defined by the treaties in the sense that it was deemed unnecessary to defend the Panama Canal from bases in Panama. And for that reason I suppose the Department of Defense agreed with the treaty to move out of Panama.

And the way that the world has been changing, it doesn't seem like you need armies to defend the Panama Canal. The types of actions to which the Canal is vulnerable are related more to the examples that you mentioned. It could be terrorism, or it could be political types of activities that would require police effectiveness more than armies. Panama has a Canal Area Police that has been growing and assuming more and more responsibility with regard to

Canal protection. Today we have joint patrols with the Canal Area Police and the Commission's Canal Protection Division, which is an industrial type of security organization. Jointly, they are patrolling both land and water.

This needs further development, but I think that it is going in the right direction. That direction is to have a specialized police unit that has the capability to support and respond to calls from the Panama Canal. The Commission's Canal Protection Division is equipped with the most sophisticated type of contronic devices, from television monitoring to radio communications. But if there is some irregularity taking place, we need to be able to fall back on the Canal Area Police.

And today we have a fairly fluid communication between the Commission's Canal Protection Division and the Canal Area Police. The Canal Area Police need to expand their budget so they can be better equipped, but I think that this is something that will happen with time. I don't think that these things happen from one day to the next, but it is moving in the right direction.

Regarding ARI's use of facilities and what happened in the Philippines, perhaps what happened in the Philippines was because of a lack of planning for the administration of those assets. The Canal area has the peculiarity of being a very large portion of real estate alongside a waterway that handles over 1,000 ships a month. And there is a tremendous amount of consciousness of that in Panama. I think that is the reason why the government created an agency that would have the authority and the capability to respond to the task of administering these reverted properties. We have to wait and see how this develops, because anything else would be speculative.

Mr. McMILLAN. May I just add very briefly to that? I think one thing that Mr. Guardia commented on in his remarks was the fact that the constitutional amendment, which has already passed one time in the National Assembly which will now have to pass again after next September, does reserve onto the new Panama Canal Authority certain rights and jurisdictions over the watershed area so there is some built-in protection on that.

With regard to ARI, as an observer, because the Panama Canal Commission is not really involved, we believe they are on the right track. Perhaps they could be moving a little faster, but in my judgment, they are heading in the right direction.

Mr. TAYLOR. Mr. Guardia and Mr. McMillan, and Mr. Guardia, in particular, I in no way want to impugn that this is some sort of a problem that would be unique to Panama. I mean, in this country—in this committee room, we regularly have United States Federal agencies that are like this at each other. I guess our wetlands laws are some of the best examples of that so it is certainly not anything that I assume is going to be unique to Panama, but if Panama are human beings just like Americans are human beings, I can see where something is going to—at some point the ARI and the Canal Authority will have to—just human nature—be at odds, and I was wondering if there is any sort of legal mechanism to see to it that—I would hope that the Canal Authority would be one notch up since that is I would hope something that

has been there for a long time and will be there for a long time and a bit more important.

The last question—getting back though to—you have talked about developing a security force for the Canal. Again, is there anything being done to provide some sort of security force of ARI or those facilities that they will inherit so that they are there to market rather than, again, or looting which, again, happens in this country, and it happened obviously most recently in the Philippines, and I would sure hate to see it happen there.

Mr. GUARDIA. Yes. The Canal Area Police also covers ARI's areas because they are within the old Canal Zone so they have that responsibility. I just want to add a thought with regard to your concerns. The Canal entity created by the Constitutional Amendment has, as Mr. McMillan says, as its responsibility the resources of the watershed, so any developments in the watershed will be the responsibility of the new Canal agency.

This is one reason why it is necessary to have fluid communications and a strong relationship between the two agencies. The legislation provides for that, but, of course, what you mention is true. It takes people to implement these things. Fortunately, we have been able to develop a good relationship between the two agencies. Last week we had a briefing in our Commission board room with the ARI people regarding some of these issues, and we keep a very open channel of communication with them. This entire process gives us all great anxieties and great preoccupations, but I think that we have to go through this in order to be able to achieve our goals. We need to worry about things in order to be able to achieve things.

Mr. TAYLOR. And the last question would be with regard to the rail line. Will the Canal Authority continue to have jurisdiction over it, or does that revert over to ARI?

Mr. GUARDIA. The railway you mean?

Mr. TAYLOR. The railway.

Mr. GUARDIA. No. The railway is not under ARI either. The railway, when it was turned over to Panama in 1979, formed its own operating agency, the Panama Railroad. It is a living example of what can happen when an entity is highly politicized. It was not funded properly, and the railroad deteriorated. The maintenance began to decrease. It is true that the railroad operation was not very successful financially because it is a very short railway, but, it is a living example of what can happen if something is dealt with that way. So I think in a way it is fortunate that we were able to see first hand the adverse results of highly politicized organization.

Mr. TAYLOR. Thank you, Mr. Chairman. Thank you, sir.

Mr. HOCHBRUECKNER. Yes. Chairman McMillan, Administrator Guardia, and colleagues, we thank you very much for your presentation, and this hearing is adjourned. Thank you.

[Whereupon, at 3:16 p.m., the Subcommittee was adjourned, and the following was submitted for the record:]

FISCAL YEAR 1995
STATEMENT OF THE CHAIRMAN
OF THE BOARD OF DIRECTORS
PANAMA CANAL COMMISSION

BEFORE THE

COAST GUARD AND NAVIGATION SUBCOMMITTEE OF THE
HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

March 1, 1994
2:00 p.m. Room 1334
Longworth House Office Building

INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM ROBERT R. MCMILLAN, THE CHAIRMAN OF THE BOARD OF THE PANAMA CANAL COMMISSION. I HAVE BEEN A MEMBER OF THE BOARD SINCE NOVEMBER, 1989 AND WAS ELECTED CHAIRMAN BY MY FELLOW BOARD MEMBERS ON OCTOBER 27TH OF LAST YEAR.

BEFORE GIVING MY BRIEF REPORT THIS AFTERNOON, I WOULD LIKE TO THANK THE LEADERSHIP OF THIS SUBCOMMITTEE FOR ITS CONTINUED SUPPORT FOR, AND UNDERSTANDING OF, THE COMMISSION. THE AGENCY IS ENTERING INTO WHAT I THINK WILL BE THE MOST CHALLENGING PART OF THE TWENTY-YEAR TREATY PERIOD. I KNOW THAT YOU SHARE THE COMMITMENT TO SEEING THE CANAL SUCCEED, IN THE NEAR TERM AND FOR MANY YEARS AFTER THE TURN OF THE CENTURY. WE WILL CONTINUE TO RELY ON YOUR SPECIAL UNDERSTANDING OF WHAT PERHAPS IS THE MOST UNIQUE FEDERAL AGENCY NOW IN BUSINESS.

TRANSITION ISSUES

REGARDING LONG-TERM TRANSITION ISSUES, I AM GOING TO LEAVE MUCH OF THE SUBJECT FOR THE ADMINISTRATOR TO COVER, ESPECIALLY REGARDING THE EFFORTS OF THE REPUBLIC OF PANAMA. I WOULD LIKE TO HIGHLIGHT A COUPLE OF EXAMPLES OF PROGRESS ON THIS FRONT, HOWEVER.

THE COMMISSION REPORTED TO THIS COMMITTEE LAST YEAR ON THE COMMENCEMENT OF A STUDY, MANDATED BY OUR 1993 AUTHORIZATION ACT, TO EXAMINE POSSIBLE CHANGES TO THE CANAL ORGANIZATION AND TO ITS GOVERNANCE TO HELP FACILITATE THE MOST SUCCESSFUL TRANSFER OF THE CANAL POSSIBLE. THE STUDY WAS COMPLETED LAST YEAR BY THE FIRM OF ARTHUR ANDERSEN & COMPANY, AND AFTER CONSIDERATION BY THE BOARD OF DIRECTORS, IT VOTED UNANIMOUSLY TO ADOPT MANY OF ITS RECOMMENDATIONS WHICH WERE THEN FORWARDED TO THE ADMINISTRATION FOR INTERAGENCY REVIEW. THE END PRODUCT OF THIS DISCUSSION WITHIN THE ADMINISTRATION WILL BE A PRESIDENTIAL TRANSMITTAL TO THE CONGRESS OF RECOMMENDED CHANGES TO THE COMMISSION WHICH WOULD FACILITATE AND ENCOURAGE THE OPERATION OF THE CANAL BY AN AUTONOMOUS ENTITY UNDER THE GOVERNMENT OF PANAMA. THIS GOAL IS ALSO CLEARLY IN THE LONG-TERM INTERESTS OF THE UNITED STATES, AS IT LOOKS TO THE FUTURE AS A USER OF THE CANAL, NOT AS ITS OPERATOR.

IT WOULD BE PREMATURE TO DISCUSS THE STUDY AND THE PRESIDENT'S RECOMMENDATIONS BEFORE THIS INTERAGENCY PROCESS IS COMPLETE AND A FORMAL TRANSMITTAL TO THE CONGRESS IS MADE BY THE PRESIDENT. HOWEVER, I BELIEVE I CAN SAY THAT AMONG THE AGENCIES WITH A SIGNIFICANT STAKE IN THE CANAL AND ITS FUTURE, THERE HAS BEEN A SPIRITED DISCUSSION OF THE BEST ACTIONS TO TAKE TO MEET THE RESPONSIBILITIES AND HOPES OF THE PANAMA CANAL TREATIES. WE LOOK FORWARD TO CONTINUING THE DELIBERATIVE PROCESS CHARTED AND COMMENCED BY THIS SUBCOMMITTEE IN 1992 ON THESE ISSUES.

1993 SAW THE COMPLETION OF A CANAL ALTERNATIVE STUDY (CAS), AFTER EIGHT YEARS OF WORK. THE CAS REPRESENTS A LARGE INTERNATIONAL EFFORT, PURSUANT TO ARTICLE XII OF THE PANAMA CANAL TREATY, TO EXAMINE NEEDS FOR, AND OPTIONS REGARDING, AN ADDITIONAL ISTHMIAN CANAL OR IMPROVEMENTS TO THE CURRENT CANAL IN THE FORESEEABLE FUTURE. THE STUDY, IT MUST BE SAID, CONFIRMED THE FORWARD-THINKING ACTIONS OF THE COMMISSION IN UNDERTAKING THE WIDENING OF THE GAILLARD CUT, A DECISION REACHED BY THE BOARD ON JULY 11, 1991.

CAS CONCLUDED THAT, WITH THE CUT WIDENING, THE CANAL SHOULD BE ABLE TO MEET PROJECTED TRAFFIC DEMAND WELL INTO THE NEXT CENTURY. OTHER THAN SAYING THIS, I WILL NOT ATTEMPT TO SUMMARIZE THE COMMISSIONERS' LENGTHY AND DETAILED REPORT HERE. AS THIS COMMITTEE IS AWARE, THIS WAS NOT A PANAMA CANAL COMMISSION STUDY BUT A JOINT GOVERNMENT STUDY BY REPRESENTATIVES FROM THE UNITED STATES, PANAMA AND JAPAN.

ANOTHER TREATY INSTITUTION WHICH PROVIDED A GOVERNMENT TO GOVERNMENT FORUM FOR THE ADDRESSING OF TRANSITION ISSUE WAS THE U.S./PANAMA CONSULTATIVE COMMITTEE, WHICH MET FOUR TIMES SINCE THE LAST PCC APPEARANCE BEFORE THIS SUBCOMMITTEE. THE CONSULTATIVE COMMITTEE SERVES AS A BINATIONAL BODY TO DISCUSS AND RECOMMEND ACTIONS BY BOTH COUNTRIES TO IMPLEMENT THE PANAMA CANAL TREATIES AND TO PREPARE THE REPUBLIC OF PANAMA FOR TRANSFER OF THE CANAL. IN ITS MEETINGS, THE COMMITTEE DISCUSSED THE FULL RANGE OF TRANSITION ACTIVITIES, FROM THE ARTHUR ANDERSEN STUDY MENTIONED ABOVE TO THE SIGNIFICANT TRANSITION-RELATED ACTIVITIES OF THE REPUBLIC OF PANAMA, WHICH MR. GUARDIA WILL OUTLINE FOR YOU.

OPERATING ENVIRONMENT

AS FORMER CHAIRMEN AND THE ADMINISTRATOR HAVE REPEATEDLY STATED IN PAST HEARINGS, THE CANAL CONTINUES TO MEET THE COMPETITION IN A FREE, OPEN AND INTENSELY COMPETITIVE ENVIRONMENT. THE PAST YEAR HAS BEEN NO EXCEPTION. THE CANAL, AS WE ALL HAVE COME TO EXPECT, HAS PERFORMED ITS SERVICES TO WORLD SHIPPING IN UNPARALLELED, AND UNINTERRUPTED, FASHION. MR. CHAIRMAN, WITH YOUR PERMISSION, I WANT TO PUBLICLY ACKNOWLEDGE THE OUTSTANDING LEADERSHIP OF ADMINISTRATOR GUARDIA. DURING THIS PAST YEAR, AS IN PREVIOUS YEARS, THE UNITED STATES IS FORTUNATE TO HAVE AN ADMINISTRATOR OF THE STATURE OF MR. GUARDIA.

WHILE MEETING THE DAY-TO-DAY DEMANDS OF THE WATERWAY, THE COMMISSION HAS KEPT ITS SIGHTS ON THE LONGER-RANGE GOALS OF THE PANAMA CANAL TREATY. PANAMANIAN NOW COMPRISE 88 PERCENT OF THE COMMISSION WORK FORCE, AS OPPOSED TO 69 PERCENT ON THE EFFECTIVE DATE OF THE TREATY. AS THEIR EXPERIENCE AND LENGTH OF SERVICE ACCRUE, PANAMANIAN CITIZENS ARE FILLING MORE UPPER MANAGEMENT POSITIONS.

FOR EXAMPLE, LAST YEAR, MR. NUMAN VASQUEZ, A PANAMANIAN CITIZEN, WAS APPOINTED AS THE FIRST PANAMANIAN DIRECTOR OF THE ENGINEERING AND CONSTRUCTION BUREAU, ONE OF THE THREE MAJOR OPERATING BUREAUS IN THE ORGANIZATION. PANAMANIAN NOW HEAD TWO OF THESE THREE IMPORTANT BUREAUS. THEY ARE PLAINLY PLAYING A SIGNIFICANT ROLE IN THE MANAGEMENT, OPERATION AND MAINTENANCE OF THE CANAL, INCLUDING DECISION-MAKING AT THE HIGHEST MANAGEMENT LEVELS. I BELIEVE MR. GUARDIA'S PRESENCE WILL MAKE THIS POINT MORE CONVINCINGLY THAN I EVER COULD, HOWEVER.

BOARD ACTIVITIES

IT HAS BEEN AN ACTIVE YEAR FOR THE BOARD OF DIRECTORS. WITH A VIEW TOWARD EQUIPPING THE BOARD OF DIRECTORS TO MEET THE INCREASING CHALLENGES AND RESPONSIBILITIES OF PREPARING FOR TRANSFER OF THE CANAL TO PANAMA, THE BOARD AT ITS JANUARY MEETING APPROVED THE RESTRUCTURING OF ITS STANDING COMMITTEES. THESE NEW COMMITTEES CONSIST OF AN AUDIT COMMITTEE, A TRANSITION COMMITTEE, AND A RECHARTERED PERSONNEL AND SECURITY COMMITTEE.

THE AUDIT COMMITTEE PROVIDES OVERSIGHT OF THE COMMISSION'S FINANCIAL REPORTING AND ACCOUNTING PRACTICES, AND ASSESSMENT OF THE ADEQUACY OF THE INTERNAL ACCOUNTING AND CONTROL SYSTEMS THROUGH REGULAR CONSULTATION WITH SENIOR COMMISSION MANAGEMENT AS WELL AS OTHERS.

THE TRANSITION COMMITTEE PROVIDES OVERSIGHT OF THE COMMISSION'S TRANSITION PLANNING AND IMPLEMENTATION ACTIONS IN THREE DISTINCT AREAS: (1) THE TERMINATION OF THE COMMISSION AS A U.S. GOVERNMENT AGENCY; (2) THE TRANSFER OF THE ASSETS AND FUNCTIONS OF THE COMMISSION TO THE DESIGNATED REPUBLIC OF PANAMA ENTITY AS REQUIRED BY THE PANAMA CANAL TREATY OF 1977; AND (3) LIAISON WITH, AND THE PROVISION OF INFORMATION AND ADVICE TO, PANAMA'S OWN TRANSITION PLANNERS.

THE PERSONNEL AND SECURITY COMMITTEE CONTINUES TO PROVIDE

OVERSIGHT OF THE COMMISSION'S MAJOR PERSONNEL ADMINISTRATION PROGRAMS AND POLICIES, AS WELL AS THE SECURITY PROGRAM FOR ITS PERSONNEL AND VITAL INSTALLATIONS. THIS COMMITTEE'S FOCUS IS TO ENSURE A VIABLE PERSONNEL SYSTEM THAT WILL SERVE EFFECTIVELY THROUGH THE REMAINING TRANSITION YEARS AND THAT COULD BE CARRIED FORWARD BY THE SUCCESSOR ENTITY.

THE MEMBERSHIP RATIO OF ALL THREE COMMITTEES REMAINS THE SAME, IN WHICH TWO U.S. AND TWO PANAMANIAN MEMBERS SERVE ON EACH. THIS STRUCTURE CONTINUES TO WORK WELL FOR THE BOARD, AND REPRESENTS A GOOD EXAMPLE OF THE STRONG BINATIONAL COOPERATION WHICH IS EVIDENT IN THE AGENCY FROM TOP TO BOTTOM.

IN SUM, THESE COMMITTEES WILL INCREASE THE BOARD'S SUPPORT OF MANAGEMENT AND ITS INVOLVEMENT IN THE TRANSITION PLANNING FOR TRANSFER OF THE WATERWAY TO FULL PANAMANIAN CONTROL, AS WELL AS INCREASE THE BOARD'S ENGAGEMENT IN OVERSIGHT OF COMMISSION POLICIES AND PROGRAMS.

BUDGET PROGRAMS

FY 1993 WAS A DIFFICULT BUDGET YEAR FOR THE COMMISSION. THE 9.9 PERCENT INCREASE IN TOLL RATES WHICH TOOK EFFECT ON OCTOBER 1, 1992 RESULTED IN AN INCREASE IN TOLLS REVENUE OVER FY 1992. HOWEVER, CANAL TRAFFIC CONTINUED TO DECLINE FOR THE SECOND YEAR IN A ROW FROM FISCAL YEAR 1991 LEVELS. DESPITE THE TOLL INCREASE, THE DECLINE IN TRAFFIC, WHEN MEASURED AGAINST OUR BUDGETED REVENUE, WAS ESPECIALLY PRONOUNCED DURING THE LAST FOUR MONTHS OF THE FISCAL YEAR AND RESULTED IN LOWER THAN ANTICIPATED TOLLS REVENUE FOR THE YEAR.

THE COMMISSION HELD THE LINE ON COSTS; HOWEVER, THE LATE BREAKING NATURE OF THE REVENUE SHORTFALL MADE OFFSETTING COST REDUCTIONS MORE DIFFICULT. DESPITE THESE ADVERSITIES, THE COMMISSION RECOVERED \$3.0 MILLION OF THE \$3.6 MILLION IN FY 1992 LOSSES. AS MR. GUARDIA WILL EXPLAIN, THE REMAINING AMOUNT WILL BE RECOVERED IN FISCAL YEAR 1994.

DURING THE FIRST FOUR MONTHS OF THE CURRENT FISCAL YEAR, TRAFFIC LEVELS HAVE SHOWN MODERATE BUT SUSTAINED GROWTH AND ARE EXPECTED TO CONTINUE TO DO SO FOR THE REMAINDER OF THE YEAR AS THE U.S. ECONOMIC RECOVERY CONTINUES TO GAIN STRENGTH.

WITH REGARDS TO FISCAL YEAR 1995, TOLLS REVENUE ARE PROJECTED TO CONTINUE TO GROW, ALTHOUGH AT A MORE MODERATE RATE. UPWARD INFLATIONARY PRESSURE ON COSTS IS EXPECTED TO BE MODEST BECAUSE OF THE WAGE RATE ADJUSTMENT ASSUMED IN THE BUDGET AND THE LOW INFLATION RATES ANTICIPATED IN 1995.

THE COMMISSION CONTINUES TO BE OPTIMISTIC THAT, DESPITE COST PRESSURES AND THE DECLINE IN TRAFFIC VOLUMES OF THE PAST YEAR REFLECTING THE STATE OF THE WORLD ECONOMY, THE CANAL WILL NOT NEED TO PROPOSE ANY INCREASE IN TOLL RATES IN THE NEAR FUTURE. AS YOU KNOW, THE COMMISSION, AS A COMPETITIVE ENTITY, MUST BE SENSITIVE TO THE CONCERNS OF THE WORLD SHIPPING COMMUNITY ON COSTS.

MR. CHAIRMAN, WHILE MR. GUARDIA WILL ADDRESS THE COMMISSION'S FISCAL YEAR 1995 BUDGET IN SOME DETAIL, I WISH TO AFFIRM THAT THE PROGRAMS FOR THAT YEAR ARE ESSENTIAL AND ARE IN ACCORD WITH THOSE OF THE PRESIDENT.

RECOGNITION OF CANAL EMPLOYEES

AT THIS TIME, I WOULD LIKE TO EXPRESS THE BOARD MEMBERS' APPRECIATION FOR THE LOYALTY AND COMMITMENT OF ALL PANAMA CANAL COMMISSION EMPLOYEES. THEIR DEDICATION AND PROFESSIONALISM HAVE RESULTED IN ANOTHER YEAR OF SAFE AND EFFICIENT SERVICE TO THE INTERNATIONAL SHIPPING COMMUNITY. THEIR DEDICATION HAS ALSO BEEN DEMONSTRATED BY THEIR CONSISTENT EFFORTS TO IMPROVE CANAL

OPERATIONS, CONTROL COSTS AND PROVIDE QUALITY CUSTOMER SERVICE. FOR EXAMPLE, THE COMMISSION'S EMPLOYEE SUGGESTION PROGRAM CONTINUES TO RESULT IN CONSTRUCTIVE IMPROVEMENTS IN THE CANAL'S OPERATIONS. IT IS THIS KIND OF INDIVIDUAL DEDICATION WHICH MAKES THE CANAL A MODEL OF EFFICIENCY FOR WORLD SHIPPING.

CONCLUSION

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I WOULD LIKE TO SUGGEST THAT MR. GUARDIA PRESENT HIS STATEMENT AND THEN WE WILL BOTH BE AVAILABLE TO ANSWER ANY QUESTIONS THE MEMBERS OF THE COMMITTEE MAY HAVE. THANK YOU.

**FISCAL YEAR 1995
BUDGET PROGRAMS
STATEMENT OF THE
ADMINISTRATOR
PANAMA CANAL COMMISSION
BEFORE THE
COAST GUARD AND NAVIGATION SUBCOMMITTEE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES**

**MARCH 1, 1994
2:00 P.M., ROOM 1334
LONGWORTH HOUSE OFFICE BUILDING**

INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM GILBERTO GUARDIA, ADMINISTRATOR OF THE PANAMA CANAL COMMISSION. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PRESENT THE FISCAL YEAR 1995 BUDGET PROGRAMS OF THE PANAMA CANAL COMMISSION, THE UNITED STATES AGENCY RESPONSIBLE FOR THE MANAGEMENT AND OPERATION OF THE PANAMA CANAL.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO AGAIN EXPRESS MY SINCERE APPRECIATION TO THE SUBCOMMITTEE AND EACH OF ITS MEMBERS FOR THE SUPPORT AND ASSISTANCE THAT THEY HAVE PROVIDED THE PANAMA CANAL COMMISSION DURING THE RECENT YEARS. MR. CHAIRMAN, I LOOK FORWARD TO A CONTINUATION OF THIS HARMONIOUS AND PRODUCTIVE RELATIONSHIP IN THE FUTURE UNDER YOUR LEADERSHIP.

AS BACKGROUND FOR THE REVIEW OF OUR FISCAL YEAR 1995 BUDGET PROGRAMS, I WILL COMMENT FIRST ON THE OPERATING RESULTS FOR FISCAL YEAR 1993 AND OUR CURRENT OUTLOOK FOR FISCAL YEAR 1994.

OVERVIEW OF FISCAL YEAR 1993

THE SLUGGISH CANAL TRADE PERFORMANCE DURING FISCAL YEAR 1992 CONTINUED INTO 1993, WITH MOST ELEMENTS OF CANAL TRAFFIC DECLINING FOR THE SECOND CONSECUTIVE YEAR. TOLLS REVENUE, AT \$401 MILLION, INCREASED 8.7 PERCENT FROM THE \$369 MILLION COLLECTED IN 1992, DUE TO THE TOLL RATE INCREASE IMPLEMENTED ON OCTOBER 1, 1992. ADJUSTED FOR THE RATE INCREASE, TOLLS REVENUE WAS ACTUALLY DOWN 1.1 PERCENT. THE DECLINE IN TRAFFIC RELATIVE TO BUDGET WAS ESPECIALLY PRONOUNCED IN THE LATTER PART OF THE FISCAL YEAR.

OCEANGOING TRANSITS FELL 3.0 PERCENT FROM 12,636 IN FISCAL YEAR 1992 TO 12,257 IN 1993, WHILE PANAMA CANAL NET TONNAGE DECLINED 1.3 PERCENT FROM 190 MILLION TONS IN FISCAL YEAR 1992 TO 188 MILLION TONS IN FISCAL YEAR 1993. COMMERCIAL CARGO, THE UNDERLYING DRIVER OF CANAL TRAFFIC ACTIVITY, DROPPED ONE PERCENT FOLLOWING A DECLINE OF 2.1 PERCENT IN 1992.

THE DECLINING CANAL TRADE RESULTS WERE DUE TO A COMBINATION OF FACTORS, SOME OF WHICH CONSTITUTE NORMAL CYCLICAL ECONOMIC AND MARKET FLUCTUATIONS OF A TEMPORARY NATURE.

AMONG THE CYCLICAL EFFECTS, TAKING A TOLL ON CANAL TRADE, WAS THE PROLONGED ECONOMIC RECESSION IN JAPAN AND EUROPE AND THE SLOW PACE OF THE U.S. ECONOMIC RECOVERY. THE ECONOMIC PERFORMANCE OF THESE REGIONS LARGELY INFLUENCES CANAL TRAFFIC, SINCE EACH OF THEM TYPICALLY ACCOUNTS FOR LARGE VOLUMES OF TRADE THROUGH THE WATERWAY.

COMPOUNDING THE EFFECTS OF THE RECESSION WERE CYCLICAL MARKET DEVELOPMENTS, SUCH AS THE DECLINE IN THE IMPORTANT REFRIGERATED PRODUCTS TRADE, PARTICULARLY ECUADORIAN BANANA AND CHILEAN FRUIT EXPORTS WHICH HAVE BEEN SUFFERING FROM DEPRESSED DEMAND STEMMING FROM A BUMPER EUROPEAN FRUIT HARVEST.

THE LOSSES EXPERIENCED DURING 1993 IN COMMODITIES SUCH AS COAL AND AUTOMOBILES, AND THE MAJOR U.S. EAST COAST - ASIA CONTAINER CARGO TRADE, OVERRODE SIGNIFICANT GAINS IN CORN, CHEMICALS, AND PETROLEUM CHEMICALS, A MODERATE IMPROVEMENT IN CRUDE OIL AND PETROLEUM AND PETROLEUM PRODUCTS, AND A MARKED EXPANSION IN CONTAINER TRAFFIC TO AND FROM SOUTH AMERICA.

THE CYCLICAL EFFECTS OCCURRING IN CERTAIN TRADES CONTRIBUTED TO THE OVERALL DECLINE IN THE LEVELS OF CANAL TRAFFIC IN 1993.

DESPITE THE DECLINE IN TRAFFIC, THE 9.9 PERCENT TOLL RATE INCREASE, COMBINED WITH A TIGHT CONTROL ON OPERATING COSTS ALLOWED THE COMMISSION TO RECOVER \$3.0 MILLION OF THE \$3.6 MILLION LOSS INCURRED IN FISCAL YEAR 1992 AND TO COMPLETE THE FINANCING OF ITS \$38 MILLION CAPITAL PROGRAM. THE BALANCE OF THE \$600 THOUSAND LOSS FROM 1992 WILL BE CARRIED FORWARD AND IS BUDGETED TO BE RECOVERED IN FISCAL YEAR 1994.

FISCAL YEAR 1994

WITH REFERENCE TO OUR CURRENT YEAR OPERATIONS, CANAL TRAFFIC AND TOLLS REVENUE IN FISCAL YEAR 1994 ARE PROJECTED TO REVERSE THE TWO YEAR DECLINE AND BEGIN TO RECOVER AS THE U.S. ECONOMY STRENGTHENS AND MARGINAL IMPROVEMENTS OCCUR IN THE JAPANESE AND EUROPEAN ECONOMIES IN THE COMING MONTHS. OTHER FAR EAST ECONOMIES, IMPORTANT TO CANAL TRAFFIC, SUCH AS TAIWAN AND SOUTH KOREA, ALTHOUGH AFFECTED BY SLIGHTLY WEAKER EXPORT MARKETS, ARE EXPECTED TO REMAIN FAIRLY STRONG.

CANAL TRADE PATTERNS DURING THE FIRST FOUR MONTHS OF FISCAL YEAR 1994 FURTHER SUPPORT THE OUTLOOK FOR MODEST GROWTH DURING THE YEAR. MOST ELEMENTS OF CANAL TRAFFIC ARE RUNNING ABOVE PRIOR YEAR LEVELS. OCEANGOING TRANSITS AND TOLLS REVENUE ARE UP 2.8 PERCENT AND 5.0 PERCENT, RESPECTIVELY, OVER LAST YEAR. ADDITIONALLY, TOTAL CARGO TONNAGE PASSING THROUGH THE CANAL IS GROWING AT A RELATIVELY HIGH RATE, INDICATING THAT A RECOVERY IN CANAL ACTIVITY IS UNDERWAY.

ACCORDINGLY, OCEANGOING TRANSITS IN FISCAL YEAR 1994 ARE NOW FORECAST AT 12,375 OR 33.9 DAILY AND TOLLS REVENUE IS ESTIMATED AT \$412 MILLION, AN INCREASE OF APPROXIMATELY 2.8 PERCENT FROM 1993. TOTAL OPERATING REVENUES ARE FORECAST AT \$536 MILLION AFTER DEDUCTING \$11.5 MILLION FOR THE FINANCING OF OUR CAPITAL EXPENDITURE PROGRAM AND \$5 MILLION FOR WORKING CAPITAL.

IN SUMMARY, THE TRAFFIC DECLINE EXPERIENCED IN FISCAL YEARS 1992 AND 1993 IS EXPECTED TO TURN AROUND, LEADING TO MODERATE GROWTH IN CANAL TRAFFIC. THE INCREASE IN OPERATING COSTS HAS BEEN HELD TO 2 PERCENT OVER 1993 AND AT THE BOTTOM LINE, THE COMMISSION WILL BREAK EVEN FOR THE YEAR, RECOVER THE \$600 THOUSAND LOSS CARRY OVER FROM FISCAL YEAR 1992 AND FINANCE THE \$39 MILLION CAPITAL EXPENDITURES PLANNED FOR THE YEAR.

OUTLOOK FOR FISCAL YEAR 1995

TURNING TO FISCAL YEAR 1995, THE COMMISSION'S BUDGET PROVIDES FOR A BREAK-EVEN OPERATION. TOTAL OPERATING REVENUES (AFTER PROVIDING \$9.5 MILLION FOR THE CAPITAL PROGRAM AND \$5 MILLION FOR WORKING CAPITAL) ARE ESTIMATED AT \$549 MILLION, COMPARED TO \$536 MILLION IN 1994.

TOTAL OPERATING REVENUES FOR 1995 INCLUDE AN ESTIMATED \$419 MILLION IN TOLLS REVENUE, AT EXISTING TOLL RATES, COMPARED TO THE \$412 MILLION ESTIMATED FOR THIS YEAR. OTHER REVENUES, PRINCIPALLY FROM SERVICES PROVIDED TO TRANSITING VESSELS, ELECTRIC POWER AND POTABLE WATER SALES TO THE REPUBLIC OF PANAMA AND OTHER U.S.

GOVERNMENT AGENCIES OPERATING IN PANAMA, ARE FORECAST AT \$144 MILLION VERSUS \$140 MILLION IN 1994.

CANAL TRAFFIC IS EXPECTED TO CONTINUE GROWING, HOWEVER, AT A SLOWER PACE, DRIVEN BY A MODEST, BUT BROAD-BASED TRADE RECOVERY. GRAIN, REPRESENTING THE SINGLE LARGEST TONNAGE IN CANAL TRADE, IS PROJECTED TO GROW marginally, AND THE CONTAINER TRADE SHOULD STRENGTHEN AS TRAFFIC TO AND FROM THE WEST COAST OF SOUTH AMERICA CONTINUES TO EXPAND. THE SOUTH AMERICAN CONTAINER TRADE, HOWEVER, IS SMALL RELATIVE TO OTHER MAJOR CONTAINER MOVEMENTS. THE TRADITIONALLY DWINDLING COAL MOVEMENT IS EXPECTED TO EXPERIENCE SOME SMALL GROWTH, FUELED PRIMARILY BY INCREASING FLOWS FROM THE WEST COAST OF CANADA TO EUROPE.

ADDITIONALLY, THE AUTOMOBILE TRADE, WHICH HAS BEEN ON A DECLINING TREND SINCE 1988, HAS BOTTOMED OUT AND IS NOT EXPECTED TO DETRACT NOTICEABLY FROM OVERALL RESULTS. THE BANANA TRADE IS PROJECTED TO REMAIN FLAT OR FALL SLIGHTLY FROM THE LEVELS ESTIMATED IN 1994, BARRING THE AS YET UNKNOWN EFFECTS OF THE EUROPEAN COMMON MARKET RESTRICTIONS. BASED ON THE LEVEL OF CARGO PROJECTED FOR FISCAL YEAR 1995, OCEANGOING TRANSITS ARE FORECAST TO RISE 0.8 PERCENT TO 12,480 OR 34.2 DAILY, AND TOLLS REVENUE, AS MENTIONED EARLIER, IS EXPECTED TO INCREASE 1.7 PERCENT TO \$419 MILLION.

AS A MATTER OF NOTE, THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA), IS NOT EXPECTED TO IMPACT ON THE CANAL TRADE IN THE NEXT COUPLE OF YEARS. OVER THE LONGER TERM, THE AGREEMENT COULD HAVE SOME MARGINAL NEGATIVE IMPACT ON CANAL FLOWS IF TRADE DIVERTS FROM NON-NAFTA COUNTRIES, PARTICULARLY ASIAN PRODUCERS THAT EXPORT TO THE U.S. THE PRODUCTS AFFECTED, HOWEVER, WOULD MOST LIKELY BE MANUFACTURING EXPORTS SUCH AS ELECTRICAL EQUIPMENT, CONSUMER ELECTRONICS, TEXTILES AND AUTOMOBILE PARTS. THESE TYPES OF PRODUCTS EXPORTED TO THE U.S. FROM THE FAR EAST ARE ALREADY LARGELY UTILIZING THE U.S. INTERMODAL SYSTEM RATHER THAN THE PANAMA CANAL.

TOTAL OPERATING COSTS INCLUDING DEPRECIATION AND INTEREST IN 1995 ARE ESTIMATED AT \$549 MILLION, AN INCREASE OF 2.6 PERCENT FROM THE LEVEL FORECAST FOR 1994. PAYROLL AND RELATED COSTS (55 PERCENT OF OUR OPERATING EXPENSES) ARE BUDGETED AT \$302 MILLION VERSUS \$294 MILLION IN 1994 AND ASSUME A 1.6 PERCENT PAY INCREASE EFFECTIVE JANUARY 1, 1995. TREATY MANDATED PAYMENTS TO PANAMA ARE ESTIMATED AT \$93 MILLION, AN INCREASE OF 3.5 PERCENT OVER 1994, AS A RESULT OF THE HIGHER TRAFFIC LEVELS AND AN INCREASE IN THE TONNAGE PAYMENT RATE FROM 36 CENTS TO 37 CENTS FOR EACH PANAMA CANAL NET TON TRANSITING THE WATERWAY.

IN SUMMARY, THE COMMISSION HAS BUDGETED A BREAK-EVEN OPERATION FOR 1995, RECOVERING ALL COSTS OF OPERATIONS AND THE FUNDS REQUIRED TO FINANCE ITS CAPITAL IMPROVEMENT PROGRAM AND WORKING CAPITAL REQUIREMENTS.

CAPITAL REQUIREMENTS

I'LL TURN NOW TO THE CAPITAL PROGRAM FOR FISCAL YEAR 1995. AS IN PAST YEARS, OVER 70 PERCENT OF THE PROGRAM IS DEVOTED TO ESSENTIAL TRANSIT FACILITIES AND EQUIPMENT. THE MAJORITY OF THESE FUNDS ARE

EXPENDED TO IMPROVE TRANSIT SAFETY AND EFFICIENCY, AND TO MODERNIZE THE CANAL.

INCLUDED IN THE FISCAL YEAR 1995 CAPITAL PROGRAM, ARE PROVISIONS FOR INSTALLATION OF A LOCOMOTIVE TURNTABLE, PROCUREMENT OF LAUNCHES, REPLACEMENT OF MACHINERY AND TRACK ROOMS, SWITCHGEAR, REPLACEMENT OF LOCKS POWER FEED CABLES, REPLACEMENT OF MISCELLANEOUS FLOATING EQUIPMENT, AND REPLACEMENT AND IMPROVEMENTS TO TRANSIT FACILITIES.

THE MAJOR CONTINUING PROJECT IN OUR CAPITAL PROGRAM IS THE WIDENING AND STRAIGHTENING OF THE GAILLARD CUT. WE HAVE BUDGETED \$10 MILLION FOR THIS PROGRAM IN 1995, BRINGING THE TOTAL FOR THE YEARS 1991 TO 1995 TO \$31 MILLION.

DRY EXCAVATION WORK IN THE CUT, WHICH IS BEING PERFORMED PRIMARILY BY PANAMANIAN CONTRACTORS, CONTINUED AT A RAPID PACE DURING 1993. THE DRY WORK, WHICH BEGAN IN FISCAL YEAR 1992, COVERS THE NORTH, CENTRAL, AND SOUTH SECTORS OF THE CUT. THE NORTH SECTOR WORK, CURRENTLY IN PROGRESS, IS SUBDIVIDED INTO EIGHT EXCAVATION PROJECTS, SEVEN OF WHICH HAVE BEEN CONTRACTED. FOUR OF THE PROJECTS ARE ALREADY COMPLETED, TWO ARE OVER 80 PERCENT COMPLETE, AND THE SEVENTH CONTRACT IS ABOUT 25 PERCENT COMPLETE. THE EIGHTH CONTRACT WAS AWARDED THIS FEBRUARY, WITH WORK SCHEDULED TO BE COMPLETED BY THE END OF CALENDAR 1994.

IN SUMMARY, THE DRY EXCAVATION WORK IS PROGRESSING IN A MOST SATISFACTORY MANNER. MORE THAN HALF OF THE WORK ON THE CONTRACTS AWARDED SO FAR HAS BEEN COMPLETED. ADDITIONALLY, THE BIDS FOR THE DRY EXCAVATION CONTRACT WORK AWARDED TO DATE HAVE BEEN SUBSTANTIALLY BELOW THE INITIAL ENGINEERING ESTIMATES WHICH HAS ALLOWED US TO ADVANCE THE WORK, AND BE AHEAD OF OUR ORIGINAL SCHEDULE FOR THIS PROGRAM.

THE WET EXCAVATION WORK, WHICH WILL BEGIN LATER THIS YEAR, WILL BE ACCOMPLISHED BY EXISTING COMMISSION "IN-HOUSE" FORCES. THE AREA TO BE REMOVED WILL BE DRILLED, AND BLASTED TO BREAK UP BELOW WATER ROCK TO FACILITATE THE FINAL REMOVAL OF THE MATERIAL BY COMMISSION DREDGING EQUIPMENT. THE LAND-BASED AND WATER-BASED DRILLING AND BLASTING WILL BEGIN IN THE MIDDLE OF FISCAL YEAR 1994. THE REMOVAL OF THE BELOW WATER LAND MASS BY THE COMMISSION'S DREDGES WILL BEGIN IN LATE 1994.

TRANSITION ACTIVITIES

1993 WAS A WATERSHED YEAR IN TERMS OF THE PLANNING AND PREPARATION FOR THE TRANSFER OF THE CANAL TO PANAMANIAN CONTROL ON DECEMBER 31, 1999. THE PAST YEAR HAS SEEN CONSIDERABLE PROGRESS BY BOTH PANAMA AND THE UNITED STATES IN THIS AREA. MUCH HARD WORK, OF COURSE, REMAINS TO BE DONE TO PLAN AND CARRY OUT THE TRANSITION. THE POSITIVE STEPS THAT HAVE BEEN TAKEN, HOWEVER, ARE MOST ENCOURAGING AND I AM CERTAIN THAT THEY FORETELL A SUCCESSFUL TRANSITION.

IN THAT REGARD, I WOULD LIKE TO TOUCH BRIEFLY ON SOME HIGHLIGHTS OF THE PROGRESS MADE DURING THE PAST YEAR IN PLANNING AND PREPARING FOR THE TRANSITION OF THE CANAL TO PANAMANIAN CONTROL IN 1999.

CANAL AFFAIRS PRESIDENTIAL COMMITTEE

AT LAST YEAR'S HEARING I MENTIONED THAT THE AD HOC COMMITTEE APPOINTED BY PRESIDENT ENDARA WAS STUDYING HOW BEST TO STRUCTURE A NEW ENTITY TO MANAGE AND OPERATE THE CANAL AFTER THE YEAR 2000. THAT COMMITTEE, NOW RENAMED THE CANAL AFFAIRS PRESIDENTIAL COMMITTEE WAS TASKED WITH IDENTIFYING THE KEY TRANSITION ISSUES AND MAKING RECOMMENDATIONS TO THE EXECUTIVE BRANCH OF THE GOVERNMENT OF PANAMA FOR RESOLVING THEM.

DURING THE PAST YEAR, THE COMMITTEE COMPLETED ITS STUDIES IN THIS AREA AND PRESENTED ITS RECOMMENDATIONS TO THE PRESIDENT OF PANAMA. AMONG THOSE RECOMMENDATIONS WAS A PROPOSED AMENDMENT TO THE PANAMANIAN CONSTITUTION TO ESTABLISH AN AUTONOMOUS GOVERNING ENTITY TO ADMINISTER THE CANAL IN THE YEAR 2000 AND BEYOND. WITH MINOR MODIFICATIONS THE PROPOSED AMENDMENT WAS SUBMITTED BY PRESIDENT ENDARA TO THE PANAMANIAN ASSEMBLY, THEIR EQUIVALENT OF THE U.S. CONGRESS, FOR ITS CONSIDERATION. MEMBERS OF THE PRESIDENTIAL COMMITTEE WORKED VERY HARD TO EDUCATE THE PANAMANIAN PEOPLE ABOUT THE ISSUES INVOLVED IN THE LEGISLATION AND BUILD SUPPORT FOR IT. DESPITE ITS MANY ACCOMPLISHMENTS, THE PRESIDENTIAL COMMITTEE'S WORK IS NOT COMPLETE. IT IS NOW EMBARKED UPON A NEW PHASE, IN WHICH IT HAS BEEN TASKED WITH DEVELOPING THE SPECIFIC LAWS THAT WILL ESTABLISH AND DEFINE THE POWERS OF THE NEW CANAL ENTITY UNDER PANAMANIAN LAW USING THE PANAMA CANAL COMMISSION AS A MODEL.

CONSTITUTIONAL AMENDMENT

THE PANAMANIAN ASSEMBLY, TOOK UP THE ISSUE OF THE PROPOSED CONSTITUTIONAL AMENDMENT TO PROVIDE THE LEGAL FRAMEWORK FOR AN AUTONOMOUS ENTITY TO ADMINISTER AND OPERATE THE CANAL IN THE YEAR 2000 AND BEYOND. FOLLOWING CONSIDERABLE DEBATE AND SOME COMPROMISE, THE ASSEMBLY APPROVED THE AMENDMENT IN DECEMBER OF 1993. IN ORDER FOR THE AMENDMENT TO BECOME EFFECTIVE, IT MUST BE PASSED AGAIN BY THE NEXT ASSEMBLY, SCHEDULED TO BE ELECTED IN MAY OF THIS YEAR, AND TO TAKE OFFICE ON SEPTEMBER 1, 1994. I WOULD LIKE TO BRIEFLY TOUCH ON SOME OF THE MORE SIGNIFICANT ASPECTS OF THE PROPOSED CONSTITUTIONAL REFORM. THE CONSTITUTIONAL AMENDMENT PROVIDES FOR:

AN AUTONOMOUS GOVERNMENT ENTITY TO BE EXCLUSIVELY RESPONSIBLE FOR THE ADMINISTRATION, OPERATION, CONSERVATION, MAINTENANCE AND MODERNIZATION OF THE CANAL, INCLUDING ITS WATERSHED AND THE LAND AND WATER AREAS ADJACENT TO THE CANAL.

THE ENTITY IS TO BE GOVERNED BY AN ELEVEN MEMBER BOARD OF DIRECTORS WITH ITS CHAIRMAN APPOINTED BY THE PRESIDENT OF PANAMA AND ONE MEMBER APPOINTED BY THE LEGISLATURE. THE REMAINING 9 MEMBERS WHO ARE APPOINTED BY THE PRESIDENT WILL SERVE STAGGERED NINE-YEAR TERMS. I BELIEVE THAT THIS STRUCTURE WILL PROVIDE A SIGNIFICANT DEGREE OF STABILITY FOR THE FUTURE MANAGEMENT OF THE CANAL UNDER PANAMANIAN STEWARDSHIP.

FINANCIAL AUTONOMY BASED UPON A THREE-YEAR FINANCIAL BUDGET PROCESS SEPARATE AND APART FROM THE USUAL BUREAUCRATIC PROCESS AND PARTISAN DEBATES TO WHICH OTHER GOVERNMENT OF PANAMA AGENCIES ARE SUBJECT.

A SPECIAL EMPLOYMENT SYSTEM BASED UPON MERIT PRINCIPLES WITH WORKING CONDITIONS AND LABOR RIGHTS SIMILAR TO THOSE IN EFFECT PRIOR TO THE TRANSFER OF THE CANAL TO PANAMA. THIS LATTER PROVISION IS ESPECIALLY KEY IN ALLAYING THE FEARS AND CONCERNS OF OUR PANAMANIAN EMPLOYEES ABOUT THEIR FUTURE WITH THE CANAL. THIS IS A STEP IN THE RIGHT DIRECTION, AND IF ENACTED, IT COULD IMPROVE EMPLOYEE MORALE SIGNIFICANTLY.

INTEROCEANIC REGIONAL AUTHORITY (ARI)

THE INTEROCEANIC REGIONAL AUTHORITY, WHICH IS COMMONLY REFERRED TO BY ITS ACRONYM "ARI", WAS ESTABLISHED IN MAY OF 1993 AS A SEMI-AUTONOMOUS GOVERNMENT ENTITY. SINCE I LAST TESTIFIED ON THIS ISSUE, THE MEMBERS OF THE GOVERNING BOARD OF ARI WERE APPOINTED BY PRESIDENT ENDARA AND CONFIRMED BY THE PANAMANIAN LEGISLATURE. IN ADDITION, ARI'S BOARD OF DIRECTORS HAS SELECTED AND APPOINTED AN ADMINISTRATOR TO HEAD THE AGENCY AND BEGIN INITIAL PLANNING AND DEVELOPMENT EFFORTS.

AS YOU MAY RECALL, ARI IS RESPONSIBLE FOR OVERSEEING THE DEVELOPMENT OF THOSE FORMER CANAL ZONE LAND AREAS AND FACILITIES WHICH REVERTED TO PANAMA IN 1979, AS WELL AS THOSE MILITARY BASES AND OTHER AREAS WHICH WILL BE TRANSFERRED TO PANAMA BY DECEMBER 31, 1999, AS PART OF THE U.S. MILITARY DRAWDOWN AND ASSET REVERSION PROCESS.

ARI WILL NOT BE RESPONSIBLE FOR ADDRESSING AREAS CURRENTLY USED BY THE PANAMA CANAL COMMISSION FOR CANAL OPERATIONS AND OTHER ACTIVITIES. NONETHELESS, WE HAVE MADE A POINT OF COORDINATING CLOSELY WITH THEM BECAUSE OF THE PROXIMITY OF THESE AREAS TO THE CANAL AND ITS INSTALLATIONS.

IN OUR VIEW, IT IS VITAL THAT PANAMA'S USE OF THESE AREAS BE COMPATIBLE WITH THE LONG TERM OPERATIONAL REQUIREMENTS OF THE CANAL. TO FURTHER THIS OBJECTIVE, THE COMMISSION'S SENIOR MANAGEMENT HAS PROVIDED A NUMBER OF BRIEFINGS TO ARI OFFICIALS DURING THE PAST YEAR TO ACQUAINT THEM WITH THE VARIED AND COMPLEX ASPECTS OF THE CANAL ENTERPRISE AND WHAT WE FORESEE AS SOME OF ITS OPERATIONAL REQUIREMENTS POST 2000.

ARI IS NOW IN THE PROCESS OF HIRING A CONSULTING FIRM TO ASSIST THEM IN PREPARING A MASTER PLAN TO ALLOW THEM TO MAKE OPTIMUM USE OF THE AFOREMENTIONED CANAL AREA.

CLINTON ADMINISTRATION INITIATIVES

AS YOU ARE AWARE, DURING THE PAST YEAR, THE CLINTON ADMINISTRATION HAS PROPOSED A NUMBER OF INITIATIVES BASED IN LARGE PART UPON VICE PRESIDENT GORE'S NATIONAL PERFORMANCE REVIEW FINDINGS. THESE INITIATIVES HAVE COVERED, AMONG OTHER SUBJECTS, IMPROVING SERVICE TO THE PUBLIC, REDUCING BUREAUCRACY, AND INCREASING EFFICIENCY. THE COMMISSION HAS INITIATED ACTION ON ALL OF THE DIRECTIVES THAT ARE APPLICABLE TO THE OPERATION OF THE WATERWAY, INCLUDING THOSE DIRECTIVES WHICH HAVE LONG-TERM GOALS AND OBJECTIVES.

CONCLUSION

IN CLOSING, I WOULD LIKE TO BRIEFLY DISCUSS CERTAIN ASPECTS OF THE EFFORTS CURRENTLY UNDERWAY TO PREPARE FOR THE YEAR 2000. WE ARE INVESTING APPROXIMATELY \$125 MILLION ANNUALLY IN MAINTAINING, MODERNIZING AND IMPROVING CANAL FACILITIES. IN ADDITION, WE ARE STRIVING TO MAINTAIN A HIGH DEGREE OF PROFESSIONALISM AND MORALE AMONG OUR EMPLOYEES.

TRAINING PROGRAMS TO ENSURE A QUALITY WORK FORCE AND PROVIDE FOR INCREASED PARTICIPATION BY PANAMANIAN CITIZENS THROUGHOUT THE ORGANIZATION REMAIN ONE OF OUR TOP PRIORITIES. PANAMANIAN CITIZENS NOW COMPRISE APPROXIMATELY 88 PERCENT OF THE COMMISSION'S WORK FORCE, WITH INCREASING INVOLVEMENT AT ALL MANAGEMENT LEVELS. THE NUMBER OF PANAMANIAN PILOTS PRESENTLY TOTALS 116 OR 51 PERCENT OF THE TOTAL PILOT FORCE.

I CONTINUE TO BE ACTIVELY INVOLVED, ALONG WITH SENIOR MEMBERS OF MY STAFF, IN PRESENTING SPECIALLY DESIGNED BRIEFINGS ON CANAL OPERATIONS. THE PRIMARY THRUST OF THESE PRESENTATIONS HAS BEEN TO IDENTIFY THE POLICIES, SYSTEMS AND FUNCTIONS THAT ARE CURRENTLY NECESSARY FOR THE SUCCESSFUL MANAGEMENT AND ADMINISTRATION OF THE PANAMA CANAL. DURING THE PAST YEAR MEMBERS OF MY STAFF AND I HAVE ADDRESSED A VARIETY OF PANAMANIAN GOVERNMENT TASK FORCES, COMMERCIAL FORUMS SUCH AS MARITIME CONFERENCES AND TRADE CONVENTIONS AND LOCAL ORGANIZATIONS SUCH AS THE PANAMA ASSOCIATION OF BUSINESS EXECUTIVES AND THE PANAMA CHAMBER OF COMMERCE.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE COMMITTEE MAY HAVE AT THIS TIME.

ADDITIONAL QUESTIONS SUBMITTED BY
CONGRESSMAN TAUZIN OF THE SUBCOMMITTEE

General

1. Where and when is the next Board of Directors meeting?

Answer. The next Board of Director's meeting will be held in Panama on April 12th and 13th, 1994.

2. Is the Commission anticipating a toll increase in the next few years? If so, why is this necessary so soon after the last one?

Answer. No, the Commission is not anticipating a toll increase in the next few years.

The Commission has budgeted a break-even operation for 1995, at existing toll rates, recovering all costs of operations and the funds required to finance its capital improvement program and working capital requirements.

3. How many toll increases has the Commission implemented since opening?

Answer. The Commission has implemented six toll rate increases since opening.

<u>Fiscal Year</u>	<u>% Increase</u>
1974	19.7
1976	19.5
1980	29.3
1983	9.8
1990	9.8
1993	9.9

4. How will NAFTA agreement affect traffic in the future?

Answer. NAFTA has the potential of diverting trade from certain non-NAFTA countries to Mexico in the near to medium term and as a result seaborne trade could be affected. Nevertheless, in the longer term, if free trade agreements are extended to other Latin American countries, trade within the hemisphere may increase resulting in some additional Canal business.

5. A slight increase in Canal traffic is predicted into 1995. What happens if this increase is not realized? Will maintenance projects be deferred?

Answer. If the increase is not realized, costs will be reduced and controlled to the lower level of revenues. Only non-critical types of maintenance projects such as routine painting, will be deferred.

6. Could you explain the Gaillard Cut widening project and what the project's near and long term schedule is?

Answer. Eight contracts have been awarded, representing a cost of \$11.3 million (versus our initial estimate of \$15.3 million) and 3.5 million cubic meters of dry excavation, which equates to about 18% of the total dry excavation for the Gaillard Cut Widening program. To date, 53% of the 3.5 million cubic meters of excavation work has been completed. Two additional dry excavation projects will be required to complete work on the west bank of the north sector of the widening program. Future plans call for the award of these contracts, covering a total of approximately 2.5 million additional cubic meters of excavation, by the end of fiscal year 1995. This schedule of awards will keep the dry excavation work on target for the projected 1992 to 1995 period, for a total by that time of 7.0 million cubic meters or 37% of the total program. Drilling operations should begin during the second half of fiscal year 1994. Dredging is then expected to follow the drilling and blasting operations during the latter part of fiscal year 1994.

7. Could you explain for the record the steps that the Republic of Panama has taken to make a smooth transition in the year 2000?

Answer. On May 14, 1991, President Endara of Panama designated a high level committee made up of prominent citizens from the private sector among whom is one of the Panamanian members of the Canal agency's Board of Directors as its chairman. This committee (originally referred to as the Ad-Hoc Committee and later named the Canal Affairs Presidential Committee), conducted a study on a wide range of important Canal-related issues, to include such matters as the type of entity that should be established for Panama to operate the Canal after the expiration of the present treaty, the employment system that should be in force beginning in the year 2000 and the future use of Canal areas scheduled to be transferred to Panamanian control on or before December 31, 1999.

At the completion of the study in September 1992, the committee proposed that an organization to be known as the Interoceanic Region Authority (which is referred to in Spanish by the acronym "ARI") be established as an autonomous agency to plan, administer, promote and develop the properties already transferred and to be transferred to Panama and encourage the economic development of the region to obtain optimal advantage of its resources. The bill to create this agency of the Panamanian Government was passed by the Legislative Assembly in late 1992. The legislation went into effect on May 1, 1993, and soon after that the Assembly approved President Endara's nomination of nine prominent Panamanian citizens to form the Board of Directors of the Interoceanic Region Authority.

Furthermore, and as part of Panama's continuing planning efforts, in late 1992 the Canal Affairs Presidential Committee created eight subcommittees for the purpose of studying and reviewing the operation and management of the Panama Canal. Their findings and recommendations were presented to the President of Panama in late June 1993. As a result of these recommendations, a draft legislation in the form of a constitutional amendment was approved by the Cabinet and presented to the Legislative Assembly in December of 1993. On December 27, 1993, the Assembly passed the amendment creating the Panama Canal Authority, an autonomous entity of the Government of Panama, which will be responsible for the administration, operation, conservation, maintenance, and modernization of the Panama Canal and its related activities upon expiration of the Panama Canal Treaty in 1999. Under Panamanian law, however, the amendment will also require the approval of the next Legislative Assembly which will be installed in September of this year.

8. Could you explain the progress being made regarding the "Dissolution Fund?"

Answer. The study (as specified in the Commission's FY 1993 Authorization bill) to identify and determine costs associated with the dissolution of the Commission will be initiated in FY 1994. It is anticipated that the report to Congress on the findings and conclusions of the study will be completed in early FY 1996.

9. Do you anticipate transferring any excess property to the Republic of Panama in FY 1995? If so, how much and what type?

Answer. The Commission anticipates transferring to the Government of Panama the following structures/buildings: (a) Maintenance Division complex, Cristobal: Building 1726 (shops and offices), 1728 (storage and shops), 1730 (sand blasting shed), 1707-C (oil storage shed), 1707-F (locker building), 1707 (equipment storage shed), 1709 (conference room), (b) Building 1105, Administration Building, Cristobal. The Commission had expected to transfer Building 1105 Cristobal during FY 94; however, construction of new facilities at the mole complex for the Marine Bureau took longer than expected.

10. When will the Commission and the administration have a response back to the Congress regarding the Arthur Andersen study? Does the Commission expect to add any of the recommendations to its authorization bill this year?

Answer. The study was completed last year by the firm of Arthur Andersen & Company, and after consideration by the Board of Directors, it voted unanimously to adopt many of its recommendations which were then forwarded to the administration for interagency review. The end product of this discussion within the administration will be a presidential transmittal to the Congress of recommended changes to the Commission which would facilitate and encourage the operation of the Canal by an autonomous entity under the Government of Panama.

It would be premature to discuss the study and the President's recommendations before this interagency process is complete and a formal transmittal to the Congress is made

by the President. However, among the agencies with a significant stake in the Canal and its future, there has been a spirited discussion of the best actions to take to meet the responsibilities and hopes of the Panama Canal Treaties.

The Commission does not expect to add any of the recommendations to its Authorization bill this year.

11. Could you comment, in general, on the upcoming elections in Panama and how the current political situation will affect the Canal and the Commission as we move toward Panamanian takeover in the year 2000?

Answer. The upcoming elections will not have an impact on Canal operations or performance. All candidates, of which there are seven running for president, were nominated by February 8. The campaign has been developing in a very moderate political climate. There was agreement by all the political parties to maintain a certain level of ethical standards in the campaign. It is too early to arrive at any clear indications based on what the polls are now showing. The campaign has just started, and the Panamanian people are just getting to know the candidates.

Labor

12. Can you comment on the situation regarding the wage negotiations concerning the pilots?

Answer. On April 16, 1993, the pilots union requested renegotiation of their collective agreement with the Commission. This precluded activation of an agreement provision that would have automatically renewed the agreement for another five-year period. Ground rules were negotiated in July and, pursuant to them, bargaining proposals on substantive matters were exchanged in early August. Negotiations commenced on August 17 but the union proposed suspending them the following day pending resolution of a negotiability dispute by the Federal Labor Relations Authority.

The principal issues in dispute are union proposals that would (1) increase annual base pay of senior pilots from the current average of about \$78,000 to a flat \$179,000; (2) establish an alternate work plan where pilots would work only fifty percent of the time but receive full pay; (3) provide preference in Commission housing assignments for Panamanians; (4) establish a tax deferred plan requiring commission contributions equal to five percent of each pilot's base pay; and (5) abridge, in a material way, existing Commission rights to change conditions of employment during the term of any agreement.

A provision of the expired collective bargaining agreement provides for the continuation of its terms and conditions until replaced by a new agreement.

13. Question. What is the status of Panamanians as pilots?

Answer. As of February 19, 1994, 51 percent of the 228 man pilot force was comprised of Panamanian citizens as compared to 1.7 percent at the beginning of the Treaty.

14. With the years of training necessary before someone is qualified to be a pilot, will there be enough qualified Panamanians in the training system to meet the demand after the year 2000?

Answer. The Commission does have an intensive pilot training program. Our goal is to have close to 100% panamanian pilot force by the year 2000 with the proper mix of qualified pilots to meet the demand. Based on our latest projections, we will meet this goal.

15. How does the pay of pilots compare to pilots in U.S.?

Answer. A recent survey of eleven pilotage associations within the United States found the pay of Panama Canal Commission pilots within the top three of the highest paid. This comparison is considered irrelevant in that Panama Canal Commission pay for pilots is not based on pay to pilots by other Federal Agencies within the United States.

16. Is there a danger of pilots leaving before there is a sufficient number of trained Panamanian pilots?

Answer. We do not believe that there is any material danger of an unanticipated number of pilots leaving the Commission between now and the end of 1999. By that time, there will be a sufficient number of trained and fully qualified Panamanian pilots to meet the anticipated workload.

While we expect a modest number of mandatory, disability, and early retirements each year, these retirements have been allowed for in the scheduling of the Commission's training program for Panamanian replacement pilots.

Although some pilots may be, to one degree or another, dissatisfied with their compensation this dissatisfaction is unlikely to cause any of them to leave before the time at which they would otherwise have retired anyway. Their current compensation is within the upper range of compensation paid by pilotage associations in the United States.

17. How is the morale among the Panamanian work force?

Answer. The morale of the Commission work force is generally good. Panamanian employees are concerned with the long-term situation and how the transfer of Canal responsibility to Panama in 1999 will impact on their future employment conditions.

Capital Investments

18. What types of Capital investments are expected over the next three to five years?

Answer. The major capital projects envisioned by the Commission at this time include:

	Est. Cost (000's)	Timetable Fiscal Year
MAJOR PROJECTS CURRENTLY IN THE ADVANCE		
ENGINEERING, PLANNING & DESIGN PHASE:		
- Install North Turntable, Pedro Miguel Locks	\$3,108	1995
- Locomotive Shed/Pit North PM Locks	568	1995
- Replace Power Feed Cables, All Locks	1,908	1995
- Replace Switchgear in Transformer Room, PM Locks	2,301	1995
- Replace Balboa 2.4KV Switchgear	1,133	1995
- Balboa 2.4KV Transformers	758	1995
- New Marine/Live Fire Training Equipment	637	1995
- Replace Alum Solution Storage Facility	378	1995
MAJOR 1996 PROJECTS PROPOSED FOR ENGINEERING, PLANNING & DESIGN IN 1995:		
- Replace 12KV Switchgear, MF	1,000	1996
- Add 15K Bbl Diesel Tank, MF	450	1996
- Replace 6.9KV Feeders, Gatun Locks	700	1996
- Replace Range Lights-Atlantic Entrance	305	1996
- Replace Floating Crane HERCULES	19,700	1996
- Gamboa Fire Station	696	1996
- Retrofit Locomotive Windlass Unit	2,142	1996
- Track Switchgears, All Locks	3,031	1996
- Vehicular Gates with Bridge (PM & MF)	520	1996

Canal Accidents

19. Have any major vessel accidents occurred in Canal waters this past year?

Answer. There have been eight vessel accidents for fiscal year 1994 as of February 8, 1994. The Commission has determined that it has no liability in four of these cases. Of the four vessel-accident cases remaining in which the Commission considers that it was partially or wholly to blame, none are considered to be major.

Major vessel accident is any accident over \$1,000,000

20. What is the extent of financial liability in these cases?

Answer. In these four cases, the potential liability exposure of the Commission is estimated to be \$94,810.00

21. What is the procedure for disposing of these claims?

Answer. The law provides a vessel-accident claimant a two-year period following the incident in which he may file an administrative claim with the Commission. Upon receipt of such a claim, the agency makes an internal assessment of its liability. If it appears the agency is without legal fault, the claim is denied. If the assessment is that some or all fault lies with the agency, further analysis is undertaken to determine which items of damage claimed are payable under the statute. Settlement negotiations are then conducted. If the shipowner is dissatisfied with the Commission's final determination with respect to the claim he may, within one year of such determination, file suit against the agency in the U.S. District Court for the Eastern District of Louisiana. Two court actions were filed against the Commission during calendar year 1993. There are currently three cases awaiting trial and one case is on appeal to the Fifth Circuit.

ADDITIONAL QUESTIONS SUBMITTED BY
CONGRESSMAN FIELDS

Political Situation

1. Could you tell us a little about the current Presidential race in Panama and whether the Canal is an issue in the race?

Answer. The upcoming elections will not have an impact on Canal operations or performance. All candidates, of which there are seven running for president, were nominated by February 8. It is difficult to determine a front runner at this time. This election is especially difficult because of the number of candidates.

The campaign has been developing in a very moderate political climate. There was agreement by all the political parties to maintain a certain level of ethical standards in the campaign. It is too early to arrive at any clear indications based on what the polls are now showing. The campaign has just started and the Panamanian people are just getting to know the candidates.

2. We have seen press reports concerning the implementation of the Hatch Act to Panamanian workers for the Panama Canal Commission. Can you tell us what the Commission's stance and actions have been?

Answer. Panama Canal Commission employees have been formally notified that, while they are free to exercise their constitutional rights to run for office in Panama's May 8 elections, they would first have to resign their position with the Canal agency in order to do so. To date, we are not aware of any employee who has decided to be a candidate for an elective post.

Tolls and Traffic

3. Is the Commission anticipating a toll increase during Fiscal Year 1995?

Answer. The Commission has budgeted a break-even operation for 1995, at existing toll rates, recovering all costs of operations and the funds required to finance its capital improvement program and working capital requirements.

4. Do you anticipate a loss in FY 94 at today's current traffic levels?

Answer. No. At the projected traffic levels contained in the budget before you, the Commission will break even after recovering the remaining portion (six hundred thousand dollars) of the FY 92 operating loss.

5. Do you foresee this trend of slow traffic growth continuing?

Answer. Our most recent forecast projects that traffic will continue to grow at a moderate level, averaging about 2 percent annually, through the year 2000.

Major Acquisitions/Renovations

6. What are your major acquisition projections for FY 95?

Answer. The information follows:

	Est. Cost <u>(000's)</u>	Timetable <u>Fiscal Year</u>
MAJOR PROJECTS CURRENTLY IN THE ADVANCE ENGINEERING, PLANNING & DESIGN PHASE:		
- Install North Turntable, Pedro Miguel Locks	\$3,108	1995
- Locomotive Shed/Pit North PM Locks	568	1995
- Replace Power Feed Cables, All Locks	1,908	1995
- Replace Switchgear in Transformer Room, PM Locks	2,301	1995
- Replace Balboa 2.4KV Switchgear	1,133	1995
- Balboa 2.4KV Transformers	758	1995
- New Marine/Live Fire Training Equipment	637	1995
- Replace Alum Solution Storage Facility	378	1995

7. With less than a two percent increase in Canal traffic, do you anticipate the need to postpone major renovations in the near future?

Answer. At the levels of traffic growth currently forecast, the Commission anticipates that it will recover all of its operating costs, and fully fund its planned programs to modernize and improve the Canal and its facilities; and does not anticipate that there will be a need to postpone, delay or defer any of the currently planned or scheduled capital improvement and modernization projects, including the widening of the Gaillard cut.

Sea Level Canal

8. What is the timetable for the release of the Sea Level Canal Alternative Study?

Answer. The Canal Alternative Study (CAS), was completed in 1993, after eight years of work.

As this committee is aware, this was not a Panama Canal Commission study but a joint government study by representatives from the United States, Panama and Japan. The CAS represents a large international effort, pursuant to Article XII of the Panama Canal Treaty, to examine needs for, and options regarding, an additional isthmian canal or improvements to the current canal in the foreseeable future. The study confirmed the forward-thinking actions of the Commission in undertaking the widening of the Gaillard Cut, a decision reached by the Commission Board of Directors on July 11, 1991. CAS concluded that, with the Cut Widening, the canal should be able to meet projected traffic demand well into the next century.

Gaillard Cut

9. Could you give us a little more details on the progress of the Gaillard Cut widening project?

Answer. Eight contracts have been awarded, representing a cost of \$11.3 million (versus our initial estimate of \$15.3 million) and 3.5 million cubic meters of dry excavation, which equates to about 18% of the total dry excavation for the Gaillard Cut Widening program. To date, 53% of the 3.5 million cubic meters of excavation work has been completed. Two additional dry excavation projects will be required to complete work on the west bank of the north sector of the widening program. Future plans call for the award of these contracts, covering a total of approximately 2.5 million additional cubic meters of excavation, by the end of fiscal year 1995. This schedule of awards will keep the dry excavation work on target for the projected 1992 to 1995 period, for a total by that time of 7.0 million cubic meters or 37% of the total program. Drilling operations should begin during the second half of fiscal year 1994. Dredging is then expected to follow the drilling and blasting operations during the latter part of fiscal year 1994.

Motor Vehicles

10. Are you planning on purchasing any automobiles, and if so, what is your policy on buying American made vehicles?

Answer. Yes, we are actually purchasing 43 new vehicles to replace the same number of vehicles currently in the fleet that meet the minimum replacement criteria as prescribed by the Code of Federal Regulations (CFR). The number of vehicles required to be purchased each year is dependent on the number of vehicles that qualify for replacement in accordance with standards established by the CFR.

b. Are you required to "buy American?"

Answer. The Commission is not required to "buy American" for the goods and services it procures for use at its headquarters and along the waterway in the Republic of Panama. Part 25 of the Federal Acquisition Regulation ("FAR") prescribes the rules and

procedures to be followed with regard to the "Buy American Act." The Panama Canal Commission conducts its procurement activities in accordance with that Federal regulation. Section 25.102 of the FAR provides that the "Buy American Act" does not apply to the purchase of supplies for use outside of the United States. Moreover, the Panama Canal Treaty stipulates that the Commission shall give preference to the acquisition of goods and services, including construction, obtainable in the Republic of Panama. This preference is implemented by awarding contracts to Panamanian firms when, in terms of price, product quality and bid responsiveness, the local bid is equal to or better than all other bids received.

None of the above applies, however, when there are no competing Panamanian suppliers or sources.

Panama does not have the industrial capability to manufacture large capital items and, accordingly, the majority of the Commission's large supply contracts are awarded to United States' firms or other overseas firms that are equipped to manufacture large capital items. Most of our smaller supply contracts, on the other hand, are awarded locally, and the great majority of the Commission's construction contracts are awarded to Panamanian firms. The procurement system described above is well understood and accepted by both the Government of Panama and the Panamanian business community. Moreover, it functions effectively to meet the operational needs of the Commission. Any changes in the system would violate the provisions of the "Buy American Act" as well as the Panama Canal Treaty, and would be poorly received by the Panamanian Government and local business.

H.R. 1558

11. What is the progress that has been made on finishing the studies/report required in H.R. 1558?

Answer. The study was completed last year by the firm of Arthur Andersen & Company, and after consideration by the Board of Directors, it voted unanimously to adopt many of its recommendations which were then forwarded to the administration for interagency review. The end product of this discussion within the administration will be a presidential transmittal to the Congress of recommended changes to the Commission which would facilitate and encourage the operation of the Canal by an autonomous entity under the Government of Panama.

It would be premature to discuss the study and the President's recommendations before this interagency process is complete and a formal transmittal to the Congress is made by the President. However, among the agencies with a significant stake in the Canal and its future, there has been a spirited discussion of the best actions to take to meet the responsibilities and hopes of the Panama Canal Treaties.

Canal Operation

12. Can you tell us how much will be paid to the Republic of Panama in FY95 and what these payments represent?

Answer. In FY 95 the Commission will pay to the Republic of Panama \$92.8 million, which represents \$10.0 million for public services; \$10.0 million for annuity payments and \$72.8 million for tonnage payments.

13. Do you anticipate a profit payment to Panama in FY 95?

Answer. No. By law the Commission is required to set toll rates to recover all costs, and is precluded from including in those costs any profit payment to Panama. Consequently, in the FY 95 budget before you, we are projecting that revenues will just cover all of our costs resulting in a break even operation.

14. What is the status of the Consultative Committee and who serves on that binational body?

Answer. This question is more aptly answered by the Department of State since it has the responsibility to coordinate the participation of the six representatives to the Consultative Committee--three U.S. and three Panamanian members. For your information, the Consultative Committee, which discusses and recommends actions by both countries to implement the Panama Canal Treaties and to prepare the Republic of Panama for transfer of the Canal, has met four times since the last PCC appearance before this subcommittee. In its meetings, the committee has discussed the full range of U.S. transition activities and the significant transition-related activities of the Republic of Panama. The U.S. members are: General Max Thurman, former Ambassador to Panama William J. Jordan, and Mr. William R. Haynes, a businessman from Texas. The Panamanian members are: Guillermo Quijano, Eloy Alfaro de Alba, and Alberto Vallarino.

15. What is the status of any accident claims made during the last year.

Answer. During Fiscal Year 1993 there were 26 recordable accidents for which claims have been received or are expected to receive. The Commission's potential liability is \$4.5 million. There have been no settlements to these claims to date.

16. Have you recovered, or will you recover all prior year losses by the end of FY 94?

Answer. The Commission is expected to fully recover the remaining six hundred thousand dollars of the prior period losses in FY 1994.

Chairman of the Board of Directors

17. What has the fallout been from having (temporarily) a chairman who was a uniformed officer? Has the Department of Defense any plans to ever try that again?

Answer. After the former Chairman and Acting Secretary of the Army, Mr. John W. Shannon, departed the Board in August, 1993, no uniformed officer held the position of Chairman. Mr. Robert R. McMillan, a Board member since November, 1989, was unanimously elected as the Chairman of the Board in October 1993.

The fact that a uniformed officer was the acting Secretary of the Army and thus, became the Representative of the Secretary of Defense on the Board, was the result of delays in the process to appoint a civilian officer to the Army leadership. DOD has requested that the issue of the Chairmanship be placed on the Agenda for the April, 1994 meeting.

Work Force

18. What is the current participation of Panamanians in the work force:?

Answer. The Commission's permanent work force as of February 5, 1994 consists of 6,532 (88%) Panamanians, 804 (11%) U.S. citizens, and 58 (1%) third-country nationals.

19. How is morale among the work force?

Answer. The morale of the Commission work force is generally good. All employees are fully aware of the many advantages inherent in employment with a prestigious and well-managed U.S. Government agency offering comparatively excellent pay and other benefits, and opportunities for advancement on the basis of merit. The quality of life and U.S. military drawdown in accord with Treaty requirements are the primary concerns of U.S. citizens employees. U.S. citizens working in the Atlantic sector have been particularly disturbed by the announcement that, as part of the U.S. Forces' Treaty Implementation Plan, Atlantic side schools and medical facilities (formerly operated by the Canal Zone Government and run by the U.S. Forces since entry into force of the Treaty), will cease to function in 1995. The Commission has initiated work-related and other adjustments to alleviate the impact these actions will have on families residing on the Atlantic side. Panamanian employees, on the other hand, are more concerned with the long-term situation and how the transfer of Canal responsibility to Panama in 1999 will impact on their future employment conditions.



ISBN 0-16-044132-3



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